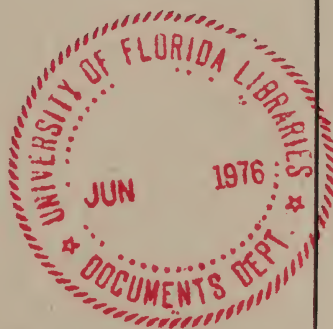


INTERNATIONAL BANKING
A SUPPLEMENT TO A COMPENDIUM OF PAPERS
PREPARED FOR THE FINE STUDY

STAFF REPORT OF THE
COMMITTEE ON
BANKING, CURRENCY AND HOUSING
HOUSE OF REPRESENTATIVES
94th Congress, Second Session



MAY 1976



Printed for the use of the Committee on Banking, Currency and Housing

The report has not been officially adopted by the Committee on Banking, Currency and Housing and may not therefore necessarily reflect the views of its members.

[COMMITTEE PRINT]

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LETTER OF TRANSMITTAL

To the Members of the Committee on Banking, Currency and Housing.

On April 24, 1975, the House Banking, Currency and Housing Committee announced the undertaking of a major review of the nation's financial institutions and their regulation by the Federal Government. This study became known as the FINE Study and, with this announcement, a team of consultants and Committee staff, under the supervision of Dr. James Pierce, principal consultant to the Committee, began an analysis of the major issues affecting our financial institutions, in contemplation of extended hearings on both the principles and ultimately on legislative concepts.

One of the principal components of the study involved foreign banking, subsequently broken down into the operations of foreign banks in the U.S. and the operations of U.S. banks abroad. Parts I and II of this volume provide preliminary analyses of these operations. These studies by Jane D'Arista related to Titles 6 and 7 of the FINE Discussion Principles. The subcommittee's first direct exposure to the impact foreign bank operations had on domestic banks occurred with the failure of U.S. National Bank, San Diego, followed in short order by the failure of Franklin National Bank. During our investigation of these two bank failures it became apparent that inadequate attention had been shown both by the Federal Reserve and the Comptroller of the Currency to their supervisory and regulatory responsibilities insofar as foreign banking operations were concerned. The Comptroller of the Currency acknowledged in his response to the FINE Study questionnaire that there had been inadequate supervisory oversight before 1974, but that steps were underway leading to a significant improvement in this area. Such an acknowledgment was not surprising in view of the dramatic development in international banking during the past decade. In the last five years alone, there has been a three-fold increase in the assets of foreign branches of U.S. banks. Twenty percent of the entire assets of the U.S. banking system are held abroad, for the most part unregulated and not subject to reserve requirements and other safeguards that apply to domestic assets. Concurrently with this dramatic development, there has been a seven-fold increase in the assets held in the U.S. by foreign banks. These operations which continue to grow significantly have indeed been a matter of concern to the Federal Reserve Board and to the committee and, as a consequence, the Federal Reserve Board has proposed in both the 93d and 94th Congresses legislation designed to increase our regulatory capability and to deal with questions of competitive inequality.

Members of the Subcommittee on Financial Institutions Supervision, Regulation and Insurance visited five European countries to broaden the subcommittee's perspective in preparation for the FINE Study hearings.

Members met with officials of the central banks of England, France, Germany, Switzerland, and Italy as well as officers in charge of foreign branch operations of a number of U.S. banks.

Discussions between U.S. Representatives and foreign banking officials focused on topics related to the supervision and regulation of international banks by both the home and host countries. Regulatory problems involving such areas as consortia and joint ventures, foreign exchange trading and the growth of non-banking activities of U.S. banks overseas were of particular concern to subcommittee members. Information on banking operations in the Eurocurrency markets were the central topic in meetings with U.S. bank officers in charge of foreign operations in the various countries visited. A report summarizing these meetings appears as Part III in this volume.

On March 25, 1976, a decision was made to proceed with three separate bills relating to the FINE Study hearings and on April 13, 1976, the International Banking Act of 1976 (H.R. 13211) was introduced by Mr. Rees, Mr. Reuss and myself, relating to foreign bank operations in the U.S., essentially following the recommendations of the Federal Reserve Board, a version reflecting technical and clarify changes will be marked up by the Subcommittee on Financial Institutions Supervision, Regulation and Insurance.

HENRY S. REUSS,
*Chairman, Committee on Banking,
Currency and Housing.*

FERNAND J. ST GERMAIN,
*Chairman, Subcommittee on Financial
Institutions Supervision, Regulation and Insurance.*

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INTERNATIONAL BANKING: FOREIGN BANK ACTIVITIES IN THE UNITED STATES

1. SUMMARY AND RECOMMENDATIONS

At the present time, the majority of foreign bank operations in the United States are chartered and regulated at the State level, principally by State bank supervisors in New York, California, and Illinois. Federal regulators are involved only where the parent foreign bank has formed or acquired a subsidiary, not when they are operating through branches and agencies. The Bank Holding Company Act Amendments of 1970 require that the foreign bank establishing or acquiring a subsidiary obtain approval from the Federal Reserve Board before obtaining a State charter for a subsidiary bank, and conform to the provisions of that act. In most cases, foreign bank subsidiaries accept domestic deposits, obtain deposit insurance and submit to regulation and examination by the Federal Deposit Insurance Corporation. Subsidiary operations constitute, however, only about 20 percent of total foreign bank activity in the United States.

Legislation has been introduced to alter this structure by requiring that all U.S. operations of foreign banks be chartered and regulated at the Federal level. Those who support such a change do so because foreign bank operations have created a number of regulatory problems. Some of these problems relate to the fact that foreign banks contribute substantially to short-term capital flows and thus affect both the U.S. balance-of-payments position and the conduct of U.S. monetary policy. Others relate to the evasion of constraints in U.S. banking law which give foreign banks a competitive advantage over domestic banks. The rapid growth in the number of foreign bank offices and in their total U.S. assets in recent years has also raised concern that there is no national policy regarding the permissible level of foreign investment or participation in the U.S. banking system. Such concern reflects the view that the banking system exercises a key role in determining the well-being of the domestic economy.

Foreign banks operate in the United States through the following kinds of offices:

Branches

U.S. branches of foreign banks are chartered only under State law. Until recently, only New York and Massachusetts have encouraged their formation. In 1973, the Illinois law was liberalized to permit foreign banks to operate a single branch in the area of the Chicago Loop. California permits foreign bank branches, but requires that their domestic deposits be insured by the Federal Deposit Insurance Corporation. Presently such deposits are not eligible for FDIC insurance and foreign bank branches are limited to States which waive this requirement. As a substitute for Federal insurance, New York State law requires that a branch maintain dollar assets equivalent to at least 108 percent of all liabilities obtained within the

State. Of the additional 8 percent which, in effect, represents the branch's capital, 5 percent must be segregated and maintained in cash or government securities in a domestic bank within the State under a restricted deposit agreement and is subject to withdrawal only with the consent of the superintendent of banks.

The fact that branches of foreign banks are legally a part of the parent bank has led the Federal Deposit Insurance Corporation to question their eligibility for deposit insurance and to insure only the deposits of separately capitalized subsidiaries. New York imposes a separate entity provision on branches which requires that the deposits of the branch be segregated from other deposits in the parent branch network and prohibits transfers of depositors' funds through the "due to" and "due from" accounts of the branches with their parent banks. Reserve requirements and interest rate ceilings on deposits are the same for branches of foreign banks in New York as for State banks, as are examination and supervision. Limitations on loans to one borrower are, however, based on parent bank capital. The major sources of funds received by foreign branches are Certificates of Deposit (CD's), compensating balances and interbank borrowings. Few of them offer personal checking accounts. Funds are used to finance international trade, for interbank lending and for commercial and industrial loans within the United States.

Agencies

Like branches, the agencies of foreign banks are chartered under State law. The principal distinction between branches and agencies is that branches are permitted to accept domestic deposits and agencies are not. Because they are not, agencies are relatively free from extensive examination by State banking authorities, are not subject to regulation Q or to fractional reserve requirements, and are not limited in the amount of loans to individual customers. They are permitted to keep less assets against liabilities than are branches and are relatively free from requirements relating to asset composition and the choice of approved depositories. Agencies also are not subject to the separate-entity concept imposed on branches of foreign banks under New York law and are legally an integral part of the parent bank.

Agencies are permitted to make domestic loans and New York agencies have been an important source of funds for security dealers. Many agencies are active in buying and selling American securities for their parent bank, its branches and customers. They also execute a substantial volume of foreign exchange transactions for their home office in the New York market. However, like the branches of foreign banks, they are primarily engaged in financing international trade, making loans to other banks and to U.S. corporations.

Subsidiaries

Foreign banks have banking subsidiaries in the United States which are subject to State law and their deposits are insured by the FDIC. Unlike foreign bank branches, they are engaged in the full line of bank activities and not concentrated in international finance and commercial and industrial lending. Foreign banks also invest directly in non-bank U.S. businesses such as securities firms, investment banks and trusts. This gives them a competitive advantage over U.S. banks which cannot engage in a brokerage or underwriting business.

Representative Offices

Of the kinds of activity permitted to foreign banks by authorities in the various States, representative offices attract the largest number of banks. These offices are not permitted to engage in banking activities but may receive checks for forwarding to the home office and handle the signing of loan papers. Because they do not receive deposits or make loans, they are not supervised and need not even be licensed in some States. They function primarily to attract business for the parent bank and to develop correspondent relationships with American banks. Representative offices often serve, however, as a precursor for other forms of activity. They are a relatively inexpensive means of establishing a presence in a new location before opening a branch, agency or subsidiary.

Problems

The regulatory problems relating to foreign bank operations in the United States can be summarized as follows:

1. Because foreign banks can operate branches and agencies in the United States without the approval of Federal authorities, they are able to engage in the business of banking in more than one State. Domestic banks have not been able to branch across State lines under the McFadden Act.

2. Since the foreign parent bank obtains approval to conduct branch and agency operations from State authorities, they can establish or acquire interests in companies which buy and sell securities and engage in underwriting without divesting their banking operations. Thus, unlike domestic banks, they are not subject to the restraints of the Glass-Steagall Act of 1933 which separate commercial banking from investment banking and securities transactions.

3. As State chartered institutions, foreign banks' branches, agencies and subsidiaries are not subject to the same reserve requirements as are Federal Reserve member banks. State requirements in some of the States in which foreign banks are active are lower than Federal Reserve requirements. All offer advantages in terms of permitting reserves to be held as correspondent balances in other banks, and some permit a portion of banks' reserves to be invested in interest-bearing government securities. But the competitors of foreign banks in most cases are not smaller, State chartered domestic institutions who also benefit from these advantages. The U.S. offices of foreign banks enhance the ability of the parent bank to compete with large U.S. banks which are active overseas, and the arena of competition for these offices extends far beyond the confines of the State.

The large U.S. banks with whom the foreign banks compete are members of the Federal Reserve System and subject to its reserve requirements on domestic operations. Thus, foreign banks operate in the United States with an advantage which U.S. banks do not have when they operate overseas. No foreign country permits the foreign branches and subsidiaries of U.S. banks to hold lower reserve requirements against domestic deposits than are required of its own banks.

4. U.S. banks invest in joint ventures with foreign banks active in the United States, often in the same State and city in which the U.S. bank is domiciled. This practice blunts the thrust of U.S. anti-trust law and permits the introduction of multinational banking cartels into the United States—allowing, in effect, U.S. banks to do indirectly what they legally cannot do directly.

5. Agencies of foreign banks are primarily engaged in an international banking business, but the regulatory framework of States in which they operate gives them substantial competitive advantages over the international departments of U.S. banks or their Edge Act subsidiaries.¹ Because they cannot accept domestic deposits, agencies are not subject to reserve requirements nor to interest rate limitations nor to the same degree of surveillance as are domestic banks. But they borrow a quarter of their liabilities from domestic banks and are permitted to accept and solicit domestic deposits for transfer to their parent banks.

Agencies also can keep credit balances related to international transactions for their own account, and, again, have a competitive advantage in attracting these domestic funds because of their freedom from regulatory restriction. Given the limited degree of surveillance to which the agencies of foreign banks are subject, it is difficult to ascertain how these credit balances differ from domestic deposits or how long funds accepted for transfer to the home office are kept by the agencies and how they might be used.

6. Because the agencies and branches of foreign banks serve as sources of dollars for their parent banks' operations in the Eurodollar market and as recipients of dollar resources which the parent bank wishes to invest in the U.S. money market, they contribute substantially to short-term capital flows and impact on the U.S. balance-of-payments position. In February 1973, funds solicited in the United States and lent abroad rose by \$1.2 billion (from \$4.5 to \$5.7 billion). This increase added to the downward pressure on the dollar overseas at the time. Similarly, in the spring of 1974, foreign banks in the United States reported a \$3.6 billion or 25 percent increase in claims on foreigners between April 24 and June 30. Almost half of the increase was listed as due from their parent banks and related institutions overseas. This increase in claims was offset by a \$2 billion (or 10.4 percent) increase in liabilities to foreigners. Thus the net outflow of funds through these banks was \$1.6 billion in the two-month period. The magnitude of such dollar transfers, especially over short periods of time, can thwart U.S. monetary policy domestically and internationally.

7. The assets/liabilities of foreign banks in the United States rose nearly 20 percent in the two-month period between April 24 and June 30, 1974—from \$38,998 billion to \$48,127 billion. Their assets rose another \$2 billion by the end of July but dropped back \$2 billion the following month. As this pattern indicates, the operations of foreign banks are of a very volatile nature. The fact that foreign banks obtain between 20 and 23 percent of their liabilities from commercial banks in the United States, and loan about 17 percent of their funds to banks in foreign countries, and that a substantial amount of their liabilities are obtained in the Federal funds market means that they have an impact on financial markets out of proportion to the size of their assets. Given the significance of their operations for both domestic and international money markets, lack of adequate information on their activities and the inability to influence these activities by the Federal Reserve complicates the implementation of monetary policy.

¹ Edge Act Corporations are international banking and investment subsidiaries of U.S. banks. They were authorized by an amendment to the Federal Reserve Act (section 25a) sponsored by Senator Walter Edge in 1919. Edge Act Corporations are chartered and regulated by the Federal Reserve Board, are subject to limitations on liabilities and on loans to one borrower. They can accept domestic deposits only if related to international transactions.

Recommendations

Because the recommendations which are an outgrowth of this study will be discussed subsequently in detail, the following brief summary is offered here:

1. Eliminate competitive advantages enjoyed by foreign banks by requiring that banking operations which they conduct in the United States conform to statutes and regulations which govern the conduct of domestic banks.

2. Impose member bank reserve requirements on foreign banks and require that reserves be deposited with Federal Reserve banks.

3. Provide for chartering of foreign banks at the highest level of government (i.e., the Treasury) in order to:

- (a) Provide for consultation by all relevant authorities (Federal and State banking authorities, State Department, National Advisory Council, etc.) as needed.

- (b) Establish national guidelines regarding the permissible level of foreign investment or participation in the U.S. banking system.

4. Prohibit interlocks and joint investments between U.S. and foreign banks operating in the same banking markets in the United States.

2. MULTINATIONAL BANKING: AN OVERVIEW

A decade ago, in 1965, the Voluntary Foreign Credit Restraint guidelines were imposed on U.S. banks in recognition of the fact that an increasing volume of credit to foreigners from a growing number of banks had become a major component in our payments deficit. Twelve banks which already had branches and subsidiaries overseas expanded their foreign operations and over the next few years a number of other U.S. banks undertook overseas operations for the first time with the blessing and encouragement of the regulatory authorities. The rationale was that funds obtained overseas and loaned to foreign customers would have no effect on American credit markets or the U.S. payments position.

In 1969 U.S. authorities took note that U.S. credit markets were not so isolated from the overseas operations of U.S. banks as had been thought. Some \$14 billion Eurodollars swept into New York in a very short period of time as banks borrowed from their foreign branches to get around the Fed's tight money policies. The lion's share of those funds were channeled to larger corporations and the result was that it took longer to cool the economy. As usual during periods of tight money, non-corporate sectors such as housing, consumers, local governments and small business suffered disproportionately. This time, however, their sufferings were prolonged by the continuing infusion of Eurodollars into the treasuries of larger corporations through the multinational banks. The U.S. economy experienced simultaneously skyrocketing interest rates, unemployment and inflation—a new combination of indicators which was termed stagflation.

In addition to these concerns, the Federal Reserve also had to contend with what would happen to the balance of payments when U.S. interest rates dropped and that \$14 billion flowed off in search of more lucrative markets. It responded quickly by imposing reserve requirements on new borrowings from overseas branches and by providing for reasonably gradual repayments of the \$14 billion already borrowed. Meanwhile, the 1969 experience demonstrated within the U.S. economy as had already been demonstrated in the economies of other developed countries, that Eurodollars could impede or even reverse efforts to impose appropriate domestic monetary policies.

What is a Eurodollar? Obviously it is not a piece of paper which the German or French housewife uses interchangeably with marks or francs to buy groceries. A Eurodollar is usually defined as a dollar which is deposited in a bank outside the United States and Eurocurrency as any currency which is on deposit outside the country of origin. The significant characteristic of the Eurodollar or Euocurrency market is that it has freed credit creation from the confines of national capital markets and national banking systems. Assume, for example, that Eurodollars are loaned by a bank in Nassau to a corporation in Germany which in turn converts the dollars into marks in order to spend the funds domestically.

These transactions present the German Central Bank with two choices: It can passively swap marks for dollars with the corporations, thus swelling the German money supply, or it can refuse to swap which will require that the German corporation induce private holders of marks to trade their marks for the corporation's dollars, thus forcing a change in the dollar-mark exchange rate. In either case, the German economy has been affected, either the money supply rises or the mark appreciates. Thus, the existence of the Eurodollar market has reduced the ability of the central bank to control domestic financial markets.

If it agrees to permit Eurodollars to flow freely across its borders, i.e., swap to domestic currency for dollars, a central bank can only maintain monetary control by adjusting the volume of funds which is under its control to compensate for the inflow-outflow. This is a more difficult task than if it were the sole creator of the money supply and may lose some ability to allocate credit if this is one of its objectives. In any event, to be successful in making adjustments to Eurodollar flows, a central bank needs accurate and up-to-date information. Currently such information is not available.¹

A number of devices have been used to protect the domestic money supply in developed countries from unwelcome inflationary and deflationary effects of Eurocurrency flows. They have had varying degrees of success. None of them, however, has dealt with the growth of the Eurocurrency money supply. Professor Milton Friedman observed in 1969 that the fractional reserve system functions as a credit multiplier in the Eurobanking system as in any national banking system and that U.S. payments deficits, while responsible for initiating the Eurodollar pool, could not account for its immense growth.² An increase of \$20 billion in the dollar liabilities of foreign branches of U.S. banks to foreigners in 1973—the year of the U.S. payments surplus—is evidence of the self-generating powers of this international money system.

There are no official figures on the size of the Eurodollar pool. A 1973 Senate Finance Committee report on multinational corporations estimated that short-term assets in international money markets totaled \$268 billion in 1971. This was equal to nearly 60 percent of the U.S. money stock—currency, demand deposits and time deposits at commercial banks (excluding large CD's)—which totaled \$465 billion. These private short-term assets in international money markets were more than three times the reserves of industrial countries—\$88.5 billion as defined by the IMF at the end of 1971—and more than twice as large as total world reserves of \$122 billion. Some 71 percent of these assets, \$190 billion, were controlled by U.S. multinational corporations and banks and their overseas affiliates. The U.S. banks and their overseas branches held \$74.4 billion or 28 percent of the total.

The 1973 Economic Report of the President stated that the total volume of dollars held by foreigners as balances in both American and European banks on December 31, 1972 was \$150 billion. Morgan Guaranty Trust Company estimates that this figure—the Eurodollar component of the Eurocurrency market—had grown to \$255

¹ Efforts are only now being initiated by the IMF, OECD and others to obtain information on specific kinds of Eurodollar loans.

² Milton Friedman, "The Eurodollar Market: Some First Principles," *Banking Markets and Financial Institutions*, Gies and Apilado, editors, Homewood, Ill., Richard D. Irwin, Inc., 1971.

billion by the end of 1974 and that the total gross Eurocurrency Market had risen to \$310 billion. The activities of foreign branches of U.S. banks contributed significantly to that increase. Their total Eurodollar and foreign currency liabilities rose 29.5 percent in 1971, 30 percent in 1972 and 53 percent in 1973, and 24.6 percent in 1974. It is estimated that foreign branches of U.S. banks hold around 40 percent of gross Eurocurrency liabilities.

The implications of this growth are read somewhat differently by observers of the multinational scene. There are those who argue that the creation and expansion of the Eurodollar market is responsible for the extraordinary increase in international trade and investment and thus for the substantial rise in world prosperity over the last decade. Others argue that the price which has been paid for increased trade and prosperity has been a loss of sovereignty by governments to the private international financial sector with the result that economic events, both domestic and international, are determined less by public policy and more by private interests. Most recently the argument has been made that unrestrained money creation in the Eurodollar market as central banks attempt to stabilize the exchange rate for their domestic currencies has contributed to world-wide inflation in the same way that excess money creation by the Fed had fueled inflation in the U.S. market. There would appear to be some truth in all three observations.

One of the major problems posed by this international money supply relates to monetary control. There is no counter-cyclical mechanism in the Eurocurrency market. Moreover, counter-cyclical measures employed within national economies act to enforce a cyclical pattern of events when individual countries attempt to stabilize their exchange rates. Tight money policies draw Eurocurrency funds into domestic markets in the form of loans. Monetary ease induces an outflow of domestic funds which become Eurocurrency deposits. In either case, there is an addition to the Eurocurrency money supply. The growth of the Eurocurrency money supply has contributed substantially to world inflation on a scale which would have been unthinkable 10 years ago. Then it was thought that we had attained a degree of monetary sophistication which made boom-and-bust cycles a thing of the past. Now our ability to deal with such events seems less certain.

In dealing with the problem of international inflation, it has become necessary that policy makers focus as much on the structure and regulation of international banking as on international monetary reform. Floating exchange rates have solved many of the problems relating to adjustments between nations. Floating rates have curtailed a particularly virulent form of currency speculation which fueled increases in the Eurocurrency money supply. Floating exchange rates, however, do not act otherwise to inhibit its rate of growth. The solution appears to lie with the tools of monetary policy as applied to banking systems in national economies—i.e., reserve requirements and limitations on assets and liabilities. Central banks have attempted to limit fluctuations in exchange rates and in the process have given up some degree of control over their domestic money supplies.

In connection with such a solution the question arises as to who will impose these monetary controls. It has been suggested that the IMF be turned into a world central bank with precisely those powers.

It might also be possible to do the job through the existing structure of national central banks working cooperatively and assuming responsibility both for international activities undertaken by their own banks and for activities of international banks within their borders. Such an approach is needed not only because of the problems which have arisen as a result of international credit creation but because international banking poses a threat to the structure and soundness of domestic banking systems.

On June 30, 1975, there were 14,573 insured commercial banks in the United States with aggregate assets of \$930.7 billion. Of these banks, 128 had overseas branches with \$162.3 billion of assets. Thus, 15 percent of the combined total of foreign and domestic assets held by insured U.S. banks are held outside the United States and outside Federal Reserve control. Moreover, about 60 percent of these foreign assets are held in London, Nassau, and the Cayman Islands and are free from control by any central bank. They are not subject to reserve requirements or time or interest rate limitations on deposits. Branches in these locations constitute unregulated portions of a given parent bank's operations. Nevertheless, foreign branches of U.S. banks are legally an integral part of the parent bank and rely ultimately on its resources. In the event of a liquidity crisis in the Eurodollar market, foreign branches will call on resources of domestic parent banks who will, in turn, borrow from the Federal Reserve as lender of last resort. Therefore, unregulated operations of U.S. banks in the Eurocurrency market must be dealt with as an American banking problem.

Not all unregulated international banking operations take place in London, Nassau and the Cayman Islands. They also take place in Panama, Hong Kong, Singapore and, more important, in New York, Chicago, Los Angeles and San Francisco. In these four U.S. cities, agencies and branches of foreign banks controlling some \$40 billion in assets conduct an international business which differs very little from that of their parent banks' London branches or the London or Nassau branches of U.S. banks.

3. THE FOREIGN OPERATIONS OF U.S. BANKS AND U.S. OPERATIONS OF FOREIGN BANKS: A BRIEF COMPARISON

Admittedly, the amount of unregulated laissez faire international banking which takes place in the United States is small compared with such activity world-wide. But the U.S. activities of foreign banks do take place in the context of international banking as a whole rather than as an isolated phenomenon, and no discussion of international banking would be complete without acknowledgement of the contributions of American banks to the present state of the art. It is true that a number of foreign banks have been active internationally for a much longer period, but their activities until recently have been confined to specific trading areas. The developments of the last decade—the creation of international currencies and of major financial centers in such unlikely places as the Cayman Islands, the establishment of global banking networks and of consortia of major banks from several countries—have either been initiated or made possible by U.S. banks. Foreign banks were initially overtaken by these developments and have only moved to meet the competition very recently. But their expansion in turn has been almost as dramatic as that of the American banks before, and the growth of international banking within the United States as a result of the new facilities they are establishing would seem to offer the main event on which attention will focus in the immediate future.

At the moment, however, and in view of the extraordinary level of activity of U.S. banks overseas, the fact that growing interest by Americans in multinational banking should focus on foreign banks in the United States may appear remarkable to more internationally oriented observers in other developed nations. The most obvious explanation for this is that these developments have occurred outside the United States for the most part. As noted, the Voluntary Foreign Credit Restraint program discouraged home office loans of domestic funds to foreigners and encouraged the offshore activities of U.S. banks. Thus, Americans who are not themselves participants in international markets are only dimly aware of the growing importance of multinational banks and corporations to the U.S. economy, and the message of its importance is being brought to them on the incoming tide—by the inflow of foreign banks and corporations into the United States in sufficient numbers to be visible.

As Table 1 indicates, there is a substantial difference between the branch and agency assets of foreign banks in the United States and those of U.S. banks overseas. But these differences are only a part of the total picture of international banking since U.S. banks have less than half the total foreign bank assets in London and since banks from a number of countries have branches in the Bahamas and Cayman Islands, Panama, Singapore and Luxembourg as well as the principal cities of other major countries. It is estimated that U.S. banks have only about 40 percent of total business in the Eurodollar market. Their share of total external banking activities may be less given the historic involvement of European banks in third world countries.

Meanwhile, other differences should be noted. American banks built up substantial branch assets in Europe before banks from continental Europe entered the United States in sufficient numbers or with sufficient resources to make an impact, and this is reflected in the fact that U.S. banks have more than twice the assets in their European branches than banks from those areas have here. But those banks have a greater potential for growth in the United States than do U.S. banks in Europe under current legal and regulatory climates. Exchange controls, restrictions on sources and uses of funds and other limitations have hampered the growth of U.S. branches in European countries other than the United Kingdom and Luxembourg. It should also be noted that Japanese banks have twice the assets in branches and agencies in the United States than U.S. banks have in Japan where entry is limited. Canadian law actually prohibits foreign banks from establishing branches in Canada although Canadian banks have substantial branch and agency assets in the United States, London and elsewhere.

As these figures indicate, there is not really that much difference between the activity of foreign banks and U.S. banks in international markets.¹ Foreign banks have roughly the same level of operations in the United States that U.S. banks have in other developed countries except the United Kingdom—more than in some and less than in others. The bulk of the foreign branch activity of U.S. banks is carried on in reserve-free and unregulated banking markets in London (44 percent), the Bahamas and the Cayman Islands (25 percent), Luxembourg, Panama and Singapore. Aggregate assets in these countries are \$124.3 billion or 75 percent of total foreign branch assets of U.S. banks. As this analysis suggests, the threat of retaliation against U.S. banks by developed countries if U.S. law governing foreign banks is changed should not be viewed as a major issue. While the attitude of the United Kingdom toward U.S. and other foreign banks is and will continue to be important in shaping international banking, the British are not likely to expel American banks because laws are tightened when they already tolerate banks from countries like Japan that have far tighter entry and regulatory requirements than current U.S. proposals have suggested.

¹ Assets of subsidiaries have not been included in this comparison since subsidiaries are not legally part of the parent bank but rather part of the banking or financial system of the country in which they are located and subject to its laws. Commercial bank and investment company subsidiaries owned by foreign banks have total assets of \$13.5 billion in the United States. Foreign subsidiaries of U.S. banks (commercial banks, finance, leasing and other companies) have assets of approximately \$23.3 billion. A breakdown of the assets of these subsidiaries by geographic location is not available to the Committee. The assets of the numerous affiliates of U.S. banks also are not available.

TABLE 1.—BRANCH ASSETS OF FOREIGN BANKS IN UNITED STATES FROM SELECTED COUNTRIES AND AREAS AND U.S. BANKS OVERSEAS IN SELECTED COUNTRIES AND AREAS, 1975

[In millions of dollars]

| Country | Foreign banks in United States ¹ | U.S. banks overseas ² |
|-------------------------|---|----------------------------------|
| United Kingdom..... | 3,090 | 72,455 |
| Continental Europe..... | 11,463 | 23,314 |
| Luxembourg..... | | 1,424 |
| Japan..... | 19,762 | 10,341 |
| Canada..... | 6,049 | |
| Bahamas..... | | 35,678 |
| Cayman Islands..... | | 5,595 |
| Other countries..... | 2,635 | 16,677 |
| Total..... | 42,999 | 165,484 |

¹ Data are for September 1975 for branches and agencies.² Data are for August 1975.

Source: Federal Reserve Board; compiled by committee staff.

Meanwhile at year-end 1974 there were 78 foreign banks engaged in banking operations in the United States. Thirteen additional foreign banks were engaged only in securities operations through subsidiaries or affiliations with investment banking companies, and another 72 foreign banks had only representative offices.² Thus, 163 foreign banks have some form of activity or representation in the United States. The 78 banks which are engaged in banking operations have some 180 U.S. offices and on June 30, 1975 reported total U.S. assets of \$57.3 billion. Thus, 78 foreign banks hold slightly less than 6½ percent of total domestic U.S. bank assets. This compares with a total of \$7 billion of assets held by the U.S. offices of foreign banks in 1965.

As the tables in Appendix A indicate, Japanese banks hold about 66 percent of total agency assets in New York and California. In California they have almost 80 percent of the total with banks from other far-eastern countries accounting for less than 2 percent and Latin America represented by only 2 banks, for less than 1 percent. Agencies of Canadian banks are the next largest group from a single country. In New York they hold 36 percent of total assets but are less important in California.

In New York European banks dominate foreign branches but have virtually ignored the agency form of operation. In California, however, agencies of 8 European banks have aggregate assets of \$874 million or 11 percent of the total for California. European banks as a group have almost 85 percent of the total assets of New York branches of foreign banks. While no single country is dominant, 4 banks from England have about a quarter of the European assets and 2 French banks have approximately the same amount.

Among subsidiaries, the Japanese banks hold more assets than banks from any other country with British banks second. Banks from Europe have only 2 more subsidiaries than do the Japanese and less than \$100 million more in assets.

² See Appendix A.

Most of the foreign bank activities in the United States are conducted by very large banks. Forty-seven—or approximately three-fifths—of the 78 banks engaged in banking activities are among the top 100 banks in the Free World by size of deposits. The fact that only 18 U.S. banks are among the top 100 gives some indication of the competitive potential of these giants. Another indication is the fact that 4 U.S. subsidiaries of foreign banks—Bank of Tokyo Trust Company of New York, Bank of Tokyo of California, European-American Banking Corporation and Sumitomo Bank of California—were among the top 500 banks in the world at the end of 1973. In June 1975, the Bank of Tokyo held \$6.5 billion of assets in its U.S. offices. Fourteen other foreign banks held more than \$1 billion of assets in the United States (see Table 2) and 10 other foreign banks had between \$500 million and \$1 billion of U.S. assets. About 75 percent of foreign banking operations are handled currently by these 25 banks. But there are another 25 or so banks already active in the United States which have the resources to become major competitors in American banking markets.

TABLE 2.—FOREIGN BANKS WITH TOTAL U.S. ASSETS OVER \$1,000,000,000

[Where they would rank among U.S. banks if their total U.S. assets were combined]

| | Total U.S. assets ¹ (thousands) | Hypothetical U.S. bank ² |
|----------------------------------|--|--|
| Bank of Tokyo..... | \$6,510,253 | 20 |
| European American Group..... | 3,517,480 | 29 |
| Credit Lyonnais, Paris..... | 2,570,053 | 47 |
| Royal Bank of Canada..... | 2,111,186 | 50 |
| Sumitomo Bank, Japan..... | 2,061,471 | 51 |
| Barclays Group, London..... | 2,054,911 | 53 |
| Lloyds Bank, Ltd., London..... | 1,993,419 | 57 |
| Swiss Bank Corp..... | 1,990,517 | 58 |
| Sanwa Bank, Osaka..... | 1,741,952 | 65 |
| Fuji Bank, Tokyo..... | 1,636,924 | 71 |
| Mitsubishi Bank, Tokyo..... | 1,360,977 | 78 |
| Dai-Ichi Kangyo Bank, Tokyo..... | 1,354,942 | 79 |
| Toronto Dominion Bank..... | 1,274,686 | 86 |
| Tokai Bank, Japan..... | 1,267,100 | 87 |
| Bank of Montreal..... | 1,053,845 | 112 |
| Total assets..... | ³ 32,499,726 | |

¹ Assets for New York, California, and Illinois, June 30, 1975.² U.S. banks ranked by assets, Dec. 31, 1975.³ Total assets of \$1,000,000,000 foreign banks were \$28,267,925 on June 30, 1974.

Source: State banking departments, American Banker; compiled by committee staff.

4. STATE LAWS AND THE STRUCTURE OF FOREIGN BANK ACTIVITIES

Nine States have laws permitting some form of foreign banking activity.¹ Some States specifically prohibit such activity, others do so implicitly,² but the majority have taken no statutory position. Foreign banks are not specifically prohibited from owning or controlling national banks but the provisions of the National Banking Act require that the directors of such banks be U.S. citizens and local residents, and prescribe some limitation on lending in relation to the amount of equity capital invested by foreign owners. As a result, the formation or acquisition of national banks by foreign banking institutions has not been attractive though there are several instances of investments in national banks by foreign individuals.³ Purchase of a controlling interest in a U.S. bank by a foreign bank requires approval of the Federal Reserve Board and subjects the purchasing bank to the requirements of the Bank Holding Company Act Amendments of 1970. Purchase of a controlling interest by a foreign individual is currently not covered by the Bank Holding Company Act and does not require Federal Reserve Board approval.

The bulk of foreign banking activity is concentrated in New York, which has approximately 60 percent of total offices and 75 percent of total foreign banking assets. California is second in terms of both foreign bank offices and assets and also in terms of the length of time in which foreign banks have been active in the State. The Illinois branches have all been established since the law was liberalized in the fall of 1973.

While there has always been some degree of foreign banking activity in the United States, the level has been relatively unimportant until recent times. As noted elsewhere, total assets of foreign banks were \$7 billion in 1965 and are now in excess of \$57 billion. Some of the impetus for this growth has been due to the liberalization of State laws.

Foreign banks were first permitted to establish branches in New York in 1961 as a result of legislation supported by First National City Bank and Chase Manhattan Bank. California also liberalized its laws to permit foreign branches despite opposition from its banking authorities, but a provision was added requiring that the branches be approved by the FDIC for deposit insurance. Since they are not currently eligible for insurance, the California branches cannot accept domestic deposits. Thus their activities are similar to those of the

¹ States with statutes dealing with permissible foreign bank activities are Alaska, California, Hawaii, Illinois, Massachusetts, Missouri, New York, Oregon and Washington.

² States which are closed to foreign banks are Connecticut, Florida, Georgia, Kentucky, Maryland, Mississippi, New Jersey and Ohio. In states which limit or prohibit branching (such as Pennsylvania and Texas) foreign bank branches are automatically excluded.

³ Michele Sindona owned 22 percent of Franklin New York Corporation, holding company for Franklin National Bank prior to its acquisition by European-American Bank and Trust Co. in October 1974, through a personal holding company, Pasco International, and was a director of Franklin's holding company but not of the bank. Edmund J. Safra owns a majority of the shares of Republic National Bank of New York through Trade Development Bank of Geneva which he controls. Mr. Safra is an honorary director of the bank. Other examples are Adrian Khashoggi who owns a controlling interest in Security National Bank, Walnut Creek, California and Ghaith R. Pharoan who recently purchased a controlling interest in Bank of the Commonwealth, Detroit.

New York agencies and they are usually referred to as agencies. California permits foreign banks to establish both subsidiary and agency operations. New York also permits the establishment of either branches or agencies (but not both) as well as subsidiaries. Canadian banks, however, do not have this choice and must operate through agencies and subsidiaries. Since U.S. banks are not permitted to establish branches in Canada, Canadian banks cannot meet the requirement for reciprocity under the New York law.

As noted above, Illinois now permits foreign banks to establish a single branch in the area of the Chicago Loop. Subsidiaries are subject to the prohibitions against branching under Illinois law. Foreign banks in Oregon are not permitted to engage in fiduciary activities but are otherwise permitted to operate on the same basis as domestic banks if deposits are insured by the FDIC. Washington State is in the process of liberalizing its laws to permit entry for foreign banks other than the two which are currently operating under a grandfather clause. Massachusetts has for many years permitted foreign banks to establish branches in the State but has only recently received its first application. Alaska and Hawaii permit some forms of foreign bank activity but so far Alaska has not proved attractive. Finally, Puerto Rico and the Virgin Islands are open to branches and subsidiaries of both U.S. and foreign banks.

Table 3 provides a geographic breakdown of foreign bank activities in the United States by type of organization and table 4 gives a breakdown of assets by States for New York, California, and Illinois.⁴ As these tables indicate, foreign bank activities are concentrated in New York, California, and Illinois with the bulk of activity in New York. They also indicate that the organizational form preferred by foreign banks is the branch or agency which can operate as part of the parent bank network. Thus one can infer that the various liberalizations of State law since 1961 have contributed to the growth of foreign banking activities.

⁴ Additional tables in Appendix A list assets by country or area in which the home office of the foreign bank is located and provide a breakdown of assets by type of operation and by State.

TABLE 3.—GEOGRAPHIC DISTRIBUTION OF FOREIGN BANKING ACTIVITIES IN THE UNITED STATES BY TYPE OF ORGANIZATION

| State | Branches | | Agencies | | Banking subsidiaries and affiliates | | Securities subsidiaries and affiliates | | Representative offices | | Total offices |
|---------------------------|----------|----------|----------|----------|-------------------------------------|-----------------------------|--|-----------------------------|------------------------|---------|---------------|
| | Banks | Branches | Banks | Agencies | Banks | Affiliates and subsidiaries | Banks | Affiliates and subsidiaries | Banks | Offices | |
| California..... | | | 31 | 32 | 12 | 13 | | | 21 | 22 | 67 |
| District of Columbia..... | | | | | | | | | 4 | 4 | 4 |
| Florida..... | | | | | 1 | 1 | | | | | 1 |
| Hawaii..... | | | 1 | 1 | 1 | 1 | | | | | 2 |
| Illinois..... | 25 | 19 | | | 3 | 3 | | | 13 | 13 | 35 |
| Massachusetts..... | 1 | 1 | | | | | | | | | 1 |
| New York..... | 29 | 48 | 33 | 33 | 18 | 18 | 36 | 20 | 91 | 91 | 210 |
| Oregon..... | 2 | 2 | | | | | | | | | 2 |
| Texas..... | | | | | | | | | 6 | 6 | 6 |
| U.S. Virgin Islands..... | 3 | 7 | | | | | | | | | 7 |
| Washington..... | 1 | 1 | 1 | 1 | | | | | | | 2 |
| Total..... | | 78 | | 67 | | 36 | | 20 | | 136 | 339 |

¹ Includes 3 New York investment companies.

² Several New York securities affiliates have branch offices in California, Illinois, and Massachusetts. Source: Conference of State Bank Supervisors; American Banker. Data are for June 30, 1974, except Illinois which is for Dec. 31, 1974.

TABLE 4.—FOREIGN BANKING ASSETS IN NEW YORK, CALIFORNIA, AND ILLINOIS, BY TYPE OF ORGANIZATION, JUNE 30, 1975

| State | Agencies | | Branches | | Banking Subsidiaries | | Total | |
|-----------------|------------------|-------------------------|------------------|-------------------------|----------------------|-------------------------|------------------|-------------------------|
| | Amount | Percent of total assets | Amount | Percent of total assets | Amount | Percent of total assets | Amount | Percent of total assets |
| New York..... | \$16,887,644,000 | 29.5 | \$13,138,196,000 | 23.0 | 1 \$13,051,338,000 | 22.8 | \$43,177,178,000 | 75.5 |
| California..... | 8,285,640,000 | 14.5 | ----- | ----- | 4,489,007,000 | 7.8 | 12,774,647,000 | 22.3 |
| Illinois..... | ----- | ----- | 1,018,148,000 | 1.8 | 225,975,700 | .4 | 1,244,123,700 | 2.2 |
| Total..... | 25,173,284,000 | 44.0 | 14,156,344,000 | 24.7 | 17,796,320,700 | 31.1 | 57,225,948,700 | 100.0 |

1 This includes the assets of 3 New York State investment companies owned by foreign banks and regulated by the New York State Banking Department outside Federal Reserve authority under the Bank Holding Company Act. The assets of foreign bank subsidiaries in New York which are covered under the BHC Act total \$5,772,403,000. Thus, foreign bank assets in these 3 States which are covered

and subject to Federal regulation (Federal Reserve and FDIC) total \$10,517,385,000, or 21.1 percent of total assets.

Source: State banking departments.

5. COMPETITIVE ADVANTAGES ENJOYED BY FOREIGN BANKS OPERATING IN THE UNITED STATES

Because foreign banks are currently chartered under State law, they have certain advantages which domestic banks operating in the United States do not share. Foreign banks can obtain charters to conduct full-service banking operations in more than one State. There are now 48 foreign banks with multi-State operations. (See table 5.) Of these, 21 are engaged in banking in 3 States, four others—Barclays Bank, Canadian Imperial Bank of Commerce, the Hong Kong and Shanghai Banking Corp., and Sumitomo Bank—have banking operations in 4 States and Bank of Tokyo has operations in 5 States. Banks chartered in the United States under Federal or State law can only operate in one State.

Foreign banks also can evade the prohibitions of Glass-Steagall against simultaneous engaging in securities operations and commercial banking if they form agencies (or branches) and do not establish banking subsidiaries. (See table 6.) When Banco di Roma applied to establish a subsidiary in Chicago in 1972, it was required by the Federal Reserve Board to agree to divest its one-third interest in an investment banking subsidiary in New York. Banco di Roma argued that had the State of Illinois permitted foreign banks to establish branches as do New York, California and Massachusetts, it could have conducted the same form of banking business and retained its securities affiliate. Subsequently, Illinois did change its law and now permits foreign banks to open branch offices.

Currently 25 foreign banks conduct commercial banking operations through agencies and branches while holding an interest in subsidiaries or affiliates which deal in securities. Of these, 10 are Japanese banks which hold less than 10 percent in investment banking affiliates with offices in the United States. Some of the Japanese banks, however, hold a minority interest in more than one such affiliate. Further, agencies and investment company affiliates of foreign banks are permitted to deal in securities but not to underwrite under New York State law. Whether these companies are substantially involved in the securities business as well as banking is not known. But the European banks which have investment subsidiaries as well as banking offices would be in violation of the Glass-Steagall Act if their operations were required to conform to existing Federal laws and regulations.

The competitive advantages enjoyed by foreign banks in being able to operate across State lines and to have interests in investment banking, commercial banking and securities firms is responsible for an increase in support for Federal chartering and regulation of their activities. A few bankers have expressed the opinion that these

competitive advantages should result in similar advantages for domestic institutions—that rather than dismantle and restrict the multi-State operations of foreign banks, the regulatory authorities might propose that Congress open the door for nationwide branching by domestic banks and amend the Glass-Steagall Act to permit commercial banks to deal in securities. But the size and scope of foreign bank activities—aside from those of a few very large banks—does not yet appear to rule out the consideration of divestiture as a reasonable course of action.

Another major concern relates to the fact that the U.S. offices of foreign banks are not subject to the same reserve requirements as are Federal Reserve member banks and that aside from the four subsidiaries which are members of the System, are not required to hold their reserves as non-interest bearing deposits with the Fed. As of March 20, 1973, reserve requirements for State chartered banks (domestic and foreign) in New York were 1 percent less than Federal Reserve requirements. In California requirements are the same as those for Federal Reserve member banks but State chartered banks may maintain 80 percent of their reserves against time deposits in interest bearing U.S. securities rather than as vault cash or demand balances in other banks. Illinois imposes no reserve requirements on either demand or time deposits of State banks, but does require the branches of foreign banks to maintain the same level of reserves as do State member banks.

Given the size of the institutions of which the U.S. branches and agencies of foreign banks are a part and the resources available to them, having lower reserve requirements than do large domestic banks in U.S. money markets can constitute a substantial competitive edge. More important, however, is the fact that the absence of control over the reserves of foreign banks' U.S. offices creates problems in implementing monetary policy.

TABLE 5.—FOREIGN BANKS WITH BANKING OFFICES IN MORE THAN ONE STATE

| Parent bank | Deposits (millions) | World rank | U.S. bank operations | | | U.S. assets in New York, Illinois and California (thousands) |
|--|------------------------|---------------|--|--------------------------|--------------------------------|--|
| | | | Branch | Agency | Subsidiary ¹ | |
| Algemene Bank Nederland..... | \$12,694 | 47 | New York, Illinois | California | ----- | \$832,923 |
| Banca Commerciale Italiana..... | 17,701 | 25 | do | do | ----- | 939,699 |
| Banco di Roma..... | 12,186 | 52 | New York | do | Illinois | 315,662 |
| Banco do Brazil..... | 15,515 | 31 | do | do | ----- | 581,866 |
| Banco Nacional de Mexico..... | 1,900 | 225 | New York | California (2) | ----- | 8,011 |
| Banco Real, Sao Paulo..... | 6,609 | 524 | New York | New York, California | ----- | 75,204 |
| Bank Leumi le-Israel..... | 5,919 | 96 | Illinois | California | ----- | 22,313 |
| Bank of Montreal..... | 16,900 | 26 | New York | New York | New York, California | 1,053,845 |
| Bank of Nova Scotia..... | 12,307 | 51 | Puerto Rico (3), Virgin Islands (5) | do | New York | 910,472 |
| Bank of Tokyo..... | 15,314 | 33 | Oregon, Washington | New York, California (2) | New York (4), California (22) | 6,510,263 |
| Banque Nationale de Paris..... | 34,230 | 4 | Illinois | California | California, New York | 600,530 |
| Barclay's Group, London..... | 29,263 | 6 | New York (2), Illinois, Massa- chusetts, Virgin Islands | do | New York (24), California (37) | 2,054,911 |
| Canadian Imperial Bank of Commerce..... | 18,758 | 21 | Oregon, Washington | New York, California | New York, California (19) | 1,005,350 |
| Commerzbank, Duesseldorf..... | 17,338 | 27 | New York, Illinois | do | ----- | 700,511 |
| Companie Financiere de Suez ² | 3,872 | 8 | do | California | ----- | 105,538 |
| Credit Lyonnais, Paris..... | 28,500 | 11 | do | New York, California | ----- | 2,570,053 |
| Dai-ichi Kangyo Bank, Tokyo..... | 23,046 | 48 | do | do | Illinois | 1,354,942 |
| Daiwa Bank, Osaka..... | 12,487 | 10 | New York, Illinois | California | ----- | 493,131 |
| Dresdner Bank, Frankfurt..... | 24,063 | 17 | Illinois | California (2) | New York (106) | 403,288 |
| European-American Group ³ | 20,181 | 17 | do | New York, California | New York | 3,517,480 |
| Fuji Bank, Tokyo..... | 5,904 | 77 | New York, Illinois, Washington | do | ----- | 1,636,924 |
| Hokkaido Takushoku Bank, Japan..... | 7,297 | 22 | Illinois | California | California (9) | 225,610 |
| Hong Kong & Shanghai Banking Corp..... | 18,136 | 62 | do | New York | ----- | 236,588 |
| Industrial Bank of Japan..... | 9,820 | 19 | New York, Illinois | New York, California | ----- | 944,768 |
| Korea Exchange Bank..... | 19,248 | 69 | do | do | California | 162,414 |
| Kyowa Bank, Tokyo..... | 19,058 | 20 | New York, Illinois | do | ----- | 514,321 |
| Lloyds Bank Ltd., London..... | 13,269 | 42 | do | New York, California | California (94) | 1,993,419 |
| Mitsubishi Bank, Tokyo..... | 3,787 | 120 | Illinois | do | California (3) | 1,360,977 |
| Mitsui Bank, Tokyo..... | 28,900 | 7 | New York, Illinois | California | California | 996,980 |
| National Bank of Greece..... | 20,646 | 389 | Puerto Rico (5), Virgin Islands | do | New York (2) | 234,469 |
| National Westminster Bank, London..... | 7,311 | 15 | Illinois | California | ----- | 496,307 |
| Philippine National Bank..... | 18,074 | 23 | Washington, New York (2) | do | New York | 97,495 |
| Royal Bank of Canada..... | 10,853 | 16 | Illinois | do | ----- | 2,111,186 |
| Saitama Bank, Japan..... | 20,359 | 16 | Illinois | do | California (4) | 326,956 |
| Sanwa Bank, Osaka..... | 20,359 | 16 | Illinois | do | California (14) | 1,741,952 |
| Standard & Chartered Banking Group Ltd., London..... | 20,359 | 16 | Illinois | do | California (19) | 629,172 |
| Sumitomo Bank, Osaka..... | 20,359 | 16 | Illinois | do | ----- | 2,061,471 |

See footnotes at end of table.

TABLE 5.—FOREIGN BANKS WITH BANKING OFFICES IN MORE THAN ONE STATE—Continued

| Parent bank | Deposits (millions) | World rank | U.S. bank operations | | U.S. assets in New York, Illinois and California (thousands) |
|-------------------------------|------------------------|---------------|------------------------|--------------------------|--|
| | | | Branch | Agency | |
| Swiss Bank Corp. | \$14,532 | 36 | New York (2), Illinois | California | \$1,990,517 |
| Swiss Credit Bank | 11,201 | 57 | New York | do | 713,073 |
| Taiyo Kobe Bank, Japan | 13,269 | 40 | Washington | New York, California | 868,170 |
| Tokai Bank, Japan | 14,281 | 38 | do | do | 1,267,100 |
| Toronto Dominion Bank | 10,913 | 59 | do | do | 1,274,686 |
| Union Bank of Bavaria, Munich | 16,158 | 30 | New York, Illinois | New York, California (2) | 127,966 |
| Total, all banks | 715,362 | 65 branches | 63 agencies | 30 subsidiaries | 46,088,513 |

¹ Numbers in parentheses denote branches of banking subsidiaries.

² Compagnie Financière de Suez is a holding company for Banque de Suez et de l'Union des Mines (world rank 207) and Banque de l'Indochine (world rank 233), France.

³ Owned by Amsterdam-Rotterdam Bank N.V., world rank 45; deposits 12,862; Creditanstalt-Bankverein, Vienna, world rank 102; deposits 4,955; Deutsche Bank A.G., Frankfurt, world rank 5, deposits 30,437; Midland Bank, Ltd., London, world rank 14, deposits 21,208; Societe Generale, Paris, world rank 9, deposits 27,239; Societe Generale de Banque S.A., Brussels, world rank 53, deposits 11,916.

Source: Federal Reserve, State bank supervisors and "American Bankers"; Compiled by committee staff.

TABLE 6.—U.S. SECURITIES OPERATIONS OF FOREIGN BANKS WITH BANKING OFFICES IN THE UNITED STATES

| Parent bank | Deposits (millions) | World rank | U.S. securities firms | Branch | Agency | Subsidiary | Total U.S. bank assets (thousands) |
|---|------------------------|---------------|---|---------------------------|----------------------|--|--|
| Algemene Bank, Nederland | \$12,694 | 47 | ABD Securities Corp. | New York; Illinois | California | | \$832,923 |
| Dresdner Bank, Frankfurt | 24,063 | 10 | do. | do. | do. | | 403,288 |
| Swiss Bank Corp. | 14,532 | 36 | Basle Securities Corp. | New York (2); Illinois | do. | | 1,990,517 |
| Daiwa Bank, Tokyo | 12,487 | 48 | Daiwa Securities Co., America | | New York; California | | 493,131 |
| Banco di Roma, Rome | 12,196 | 52 | Europartners Securities Corp. | New York | California | Illinois | 313,662 |
| Commerzbank, Frankfurt | 17,338 | 27 | do. | New York; Illinois | do. | | 700,511 |
| Credit Lyonnais, Paris | 28,600 | 8 | do. | do. | California | | 2,570,053 |
| Westdeutsche Landesbank Girozentrale ¹ | 22,801 | 12 | RWS Securities Services | New York | | | |
| Amsterdam-Rotterdam Bank, N.V. | 12,862 | 45 | Sogen Swiss International ² | Illinois | California (2) | 1 bank and 1 invest- ment in New York | 3,517,480 |
| Societe Generale, Paris | 27,239 | 9 | do. ² | do. | do. | do. | 3,517,480 |
| Societe Generale de Banque S.A., Brussels | 11,916 | 53 | Suez American | do. | do. | do. | 3,517,480 |
| Compagnie Financiere de Suez ³ | 3,872 | | White, Weld & Co. ⁴ Swiss American Se- curities | New York; Chicago | do. | | 105,538 |
| Swiss Credit Bank | 11,201 | 57 | UBS-DB Corp. | New York | California | | 713,073 |
| Deutsche Bank, Frankfurt ¹ | 30,437 | 5 | do. | | | | |
| Union Bank of Switzerland | 14,402 | 37 | do. | | | New York | 999,628 |
| Fuji Bank of Japan | 20,181 | 17 | Yamacha International (America) Inc. | | New York; California | do. | 1,636,924 |
| Industrial Bank of Japan | 18,136 | 22 | do. | | do. | do. | 944,768 |
| Mitsubishi Bank | 19,058 | 20 | do. | | do. | California (3) | 1,360,977 |
| Banca Commerciale Italiana | 17,701 | 25 | Shields Model Roland, Inc. ⁴ | New York; Illinois | California | | 939,699 |

¹ Other information not available from State bank departments as of June 30, 1975.² Stockholders of European American Bank & Trust Co., New York. Assets and banking operations listed are for that bank.³ This is a holding company for Banque de Suez et de l'Union des Mines (world rank 207) and Banque de l'Indochine (world rank 233).⁴ Minority interests.

Source: Federal Reserve, State Bank Supervisors and "American Banker"; compiled by committee staff.

6. PROBLEMS IN REGULATING FOREIGN BANKS

Some of the disadvantages of the current system of regulating foreign banks have already been mentioned. But there are other problems which would not be solved merely by transferring authority from the State to the Federal level. The basic difficulty was discussed in a study of foreign banking in the United States published by the Joint Economic Committee in 1966:

Traditionally, officials have regarded branches of foreign banks to be the most difficult to supervise. The authorities have feared that they could not adequately protect the depositors in the branch institutions which, in effect, are appendages of foreign banking networks. Since the parent institutions are entirely outside the jurisdiction for examination and supervision by State authorities, concern has been expressed that any attempt to exercise effective control over foreign branches is made illusory. It has been argued that assets of branches could be withdrawn by the foreign parent with comparative ease, and once removed, would be difficult to recover in suits initiated in American courts.¹

In framing its law providing for the formation of foreign branches, New York State attempted to meet these problems by requiring that a branch maintain dollar assets equivalent to at least 108 percent of all its liabilities within the State. Of the 8 percent, which, in effect, represents the branch's capital, 5 percent must be segregated and maintained in cash or Government securities in a domestic bank in New York under a restricted deposit agreement and is subject to withdrawal only with the consent of the superintendent of banks. Moreover, New York has imposed a separate-entity concept which requires that branches be operated as if their liabilities extended only to branch depositors. Deposits in the New York branch must be segregated from all other deposits in the parent bank network and depositors funds cannot be transferred through the "due to" and "due from" accounts of the branch with its parent and other branches of the parent outside the United States.

New York State banking authorities think that these provisions, together with regulation and examination at the level applicable to domestic banks, make it possible to supervise foreign branches independently of the operations of the parent bank and its branches. However, in 1964 when the provisions affecting foreign branches were passed in California, the State Superintendent of Banking argued that the control necessary to protect domestic depositors requires that the directors of a foreign bank be local residents subject to local civil and criminal control as well. The implications of both this argument and of the separate-entity concept in the New York law tend to undermine the traditional concept of branches as an integral part of the parent bank with the resources and organization of the parent behind it. For the protection of depositors it would seem that the subsidiary form is more consistent with U.S. standards of regulation and control.

¹ "Foreign Banking in the United States", Paper No. 9, *Economic Policies and Practices*, Materials prepared for the Joint Economic Committee, 89th Congress, 2nd Session, 1966, pp. 23-24.

The fact that the branches' lending limits are based on parent bank capital is another problem which is not easily solved in the context of domestic bank regulation, State or Federal. Thus attention must be directed toward the parent in assessing the soundness of a branch since a view of the parent operation as a whole is required to ascertain how well asset/liability maturities are matched, what are the bank's total of loans to a given borrower, what is its foreign exchange position in relation to capital, etc. The branch is thus more vulnerable to events within the parent bank network than if its lending limits were directly related to its own size as measured by total assets/liabilities.

The problems relating to limits on loans to one borrower apply to agencies as well—except that there are no limits on loans by agencies. However, there are other problems which are unique to the agencies. New York agencies of foreign banks are permitted to hold credit balances but can only accept domestic deposits for transfer to the parent bank. Recently, California agencies were permitted to accept foreign deposits as well as U.S. credit balances.² Agencies are not constrained to match maturities of assets and liabilities, do not carry FDIC insurance, are not subject to Federal regulation or supervision and are subject only to minimal regulation, supervision and examination by State authorities because there is no need to be concerned with protecting domestic depositors. But because supervision is lax, it is difficult to tell if or how credit balances held by agencies differ from deposits. Moreover, the restriction on accepting deposits can be evaded by agencies through issuing acceptances. There are over \$10 billion of bankers' acceptances outstanding which were drawn to finance trade between third countries, most of it involving Japanese exports and imports. At year-end 1975, \$163 million of acceptances issued by agencies of foreign banks were held in the portfolio of the Federal Reserve Bank of New York.

However, the relevant distinction for supervisory authorities is not only between domestic and international but between wholesale and retail funds. The size of individual balances held by agencies is such that deposit insurance is irrelevant. Thus, the real focus of concern is with the central bank which must act as lender of last resort should problems in one of these agencies threaten the parent bank, or other banks and corporations which have provided a sizable portion of its liabilities.

Another of the regulatory problems arising as a result of increased foreign bank participation in the U.S. banking system relates to the separation of banking and commerce. Some countries do not require such a separation and some foreign banks which are active in the United States are affiliated with foreign companies which do a substantial amount of business in the United States. Questions concerning the propriety of these relationships and their impact on competition within the American economy were raised in bills proposed in the California Legislature in 1973. The Federal Reserve Board has also attempted to meet this problem by regulation within the scope of its authority under the Bank Holding Company Act

² The numerous representative offices of foreign banks also may receive checks for forwarding to the home office and handle the signing of loan papers. These offices are by law prohibited from performing banking functions of any kind but are, currently, totally unsupervised.

Amendments of 1970. It is thought by some, however, that the Board's interpretations have been so broad as to negate the effort. Support for this view is found in former Board Governor Andrew Brimmer's dissenting statement of December 1, 1971 in a case involving three Japanese banks:

A principal purpose of the Bank Holding Act, unaltered by the 1970 amendments, was to prevent the dangers to the nation's banking system inherent in common control of banking and commercial interests. Approval of the instant applications ignores this historic mandate against common control—for certainly that is evidenced here—and is thus patently contrary to the public interest.³

Finally, mention should be made of the problem of disclosure. Few countries require the degree of financial disclosure which is required in the United States of both banks and corporations. While the fact and implications of Switzerland's bank secrecy laws are well known, it is not widely known that, for instance, British banks can and do hide critical information concerning the size of bad-debt provisions and write-offs. As a result, Cedar Holdings Ltd., a British "fringe" bank,⁴ received approval from the Federal Reserve Board to acquire a bank in Westchester County, New York, in December 1973. Ten days later, Cedar Holdings' financial problems surfaced and trading in its stock on the London Exchange was suspended. At the suggestion of the Board, Cedar Holdings withdrew its application to purchase the American bank.

Problems of disclosure also have arisen relating to the adequacy of information necessary to support foreign loans by U.S. banks. A significant amount of foreign loans made by Franklin National Bank to private borrowers (including banks) were criticized by examiners because there was inadequate information to determine the prospects for repayment. There is no assurance that the experience of State banking authorities with foreign bank branches and agencies has been better or that the problem will be solved merely by transferring regulatory authority from the State to Federal level.

As this discussion and the discussion of joint ventures between banks chartered in different countries suggest, regulatory problems posed by international banking will not be solved easily or quickly. It is surely overly optimistic to expect that legislation dealing with the chartering and regulation of foreign banks in the United States will make substantial progress toward needed solutions since the problems of regulating the foreign operations of U.S. banks are of even greater significance for the American banking system. Nevertheless, it is important that the legislation serve to raise the problems and provide an occasion for public discussion of the issues.

³ *Federal Reserve Bulletin*, January 1972, p. 53.

⁴ A "fringe" bank is one which is licensed under section 127 of the Companies Act to carry on the business of banking. It is under the supervision of the Department of Trade & Industry—not the Bank of England—and Supervision has been lax. With the collapse of real estate values in England at the end of 1973, it was necessary for the Bank of England to bail-out the fringe banks by directing the clearing banks (Barclays, Lloyds, etc.) which it does supervise to make funds available to them, thus impairing the position of the clearing banks.

Although the clearing banks are supervised by the Bank of England, they do not make critical balance sheet information available to the public.

7. THE PROBLEM OF RECIPROCITY

The growth in international banking has raised a number of questions relating to the issue of reciprocity. Attitudes toward foreign banking activities vary from country to country. Sweden, for example, prohibits any form of penetration by foreign banks. Australia permits foreign banks to engage in other financial activities but not commercial banking. Canada restricts operations to subsidiaries but has recently limited to 25 percent the amount that can be invested in a banking subsidiary by a foreign bank. A number of developed countries permit foreign banks to operate on the same basis as domestic banks. This has meant that, in many instances, U.S. banks are able to undertake activities through subsidiaries overseas which are prohibited at home. It has also meant that the branches and subsidiaries of U.S. banks have been subject to the same foreign exchange controls imposed by host countries as their domestic banks in a number of European countries.

The denial by the New York State Banking Department of an application by Barclays Bank, London to acquire a relatively large suburban bank in 1973 indicates some of the problems with which U.S. regulatory agencies must deal. The New York authorities denied the application on the grounds that a similar acquisition by a domestic bank of a size comparable to Barclays would also have been denied and said that given "the impelling need for fairness in treating domestic and foreign institutions alike," the acquisition would not be in the public interest.¹ Those who disagreed with the decision argued that the subsidiary of the English bank that was actually acquiring the Long Island bank was not of comparable size to the U.S. banks in question and that the acquisition was pro-competitive rather than the reverse. Barclays itself argued that this was discriminatory since similar acquisitions by large U.S. banks had already taken place with the approval of United Kingdom authorities. On the other hand the Japanese Government has thus far not permitted U.S. or other foreign banks to establish operations in Japan which are comparable in terms of total assets to those of Japanese banks in the United States and elsewhere, nor have the Canadians.

The English experience with foreign banks has been unique but instructive. In its effort to maintain London's supremacy as the center for international finance, U.K. authorities have accorded a great deal of freedom to foreign banks, permitting individual banks to engage in a range of activities which traditionally have been parceled out among the various classes of English banks. As the activities of foreign banks expanded and as the U.S. banks in particular increased their share of the domestic market, the competitive advantages of the foreign banks became apparent. A recent decision by U.K. authorities to

¹ Barclays was then the 4th largest bank in the free world. It is now the 6th largest.

permit mergers of clearing and merchant banks indicates that they are prepared to solve the problem by liberalizing domestic restrictions to bolster the competitive position of U.K. banks rather than risk damage to the domestic banking system and loss of foreign income from restricting the activities of the multinational banks. There are some who have questioned this attitude, arguing that the British banking system has been preoccupied with the international banking system to an extent which is detrimental to the performance of banks in the domestic market, and wondering what future benefits can be expected from this further commitment to the requirements of international finance.

The problems which the United States faces with regard to the future of international banking center on the role of U.S. banks operating overseas rather than, as in the United Kingdom, on the role of foreign banks here. Legislation requiring Federal chartering and regulation of foreign banking activities and making their activities conform to domestic standards would have no negative impact on domestic banking. Such legislation might, however, imperil the position of those U.S. banks which have substantial investments in foreign operations.

Banks in some foreign countries believe that if U.S. banks can underwrite securities in their country because it is not in conflict with their laws, therefore they should be able to underwrite in the United States. This is what is usually called reciprocity. But other countries are not likely to expel U.S. banks on the grounds of lack of reciprocity in the range of permissible activities. However, if the issue of the range of activities were to be taken seriously by other countries, the foreign branches and subsidiaries of U.S. banks might be faced with restrictions which in effect would require that they conform more closely to the standards met currently by their parent banks. Those who are concerned about the lack of control over the foreign activities of U.S. banks would welcome the enforcement of this form of reciprocity by other countries since it would bypass the need for extensive regulatory revisions to provide a comparable solution imposed by U.S. authorities.

The solution currently in effect in countries such as Germany to permit foreign banks to share the same privileges, restrictions and responsibilities as do domestic banks seems the most reasonable. However, such a view confines the issue of reciprocity to a purely banking matter, a question of competitive equality related primarily to requirements for entry and range of permissible activities. Such a view minimizes the importance of issues relating to public policy. For some countries—either because of their size or degree of economic development—such a solution would not be reasonable. Multinational banking flourishes in a number of smaller developed countries and in some which are among the lesser developed as well. But a number of countries are not convinced that the additional banking facilities and competition provided by multinational banks will benefit their domestic economies. In some cases—Canada, Australia, and Mexico, for instance—restrictions on foreign banks reflect concern that their economies may be overwhelmed by foreign investment. The structure of the economy and degree of integration of public and private interests is a factor as well in assessing the policies of countries such as Japan or Sweden.

It is also possible that governments which have recently contemplated further restrictions on foreign banking activity regard such restrictions as an alternative to foreign exchange controls. Some countries recently have had some success with controls to limit inflows of foreign funds. Their efforts have benefited from floating rates. Countries which have sought to prevent outflows of funds by means of capital controls have been less successful and they have not been helped by floating rates. These countries will need to seek other alternatives to insulate their economies from the unstabilizing effects of capital flows. Some may choose to reduce capital flows by limiting the number of institutions, domestic and foreign, engaged primarily in international banking and thus dependent on flows of funds between national and international financial markets.

As this brief survey indicates, the issue of reciprocity raises questions which are not easily resolved. No doubt there are a number of questions which have not been covered here, among them the very important question relating to the responsibilities of the central bank in the host country to act as lender of last resort to foreign banks—a role which was refused in the summer of 1974 by the Bank of England in the case of a subsidiary of an Israeli bank.² Another is the problem of disclosure and examination. Few countries maintain a degree of surveillance over private banks comparable to that of the United States though some exercise a far greater degree of control over banking policies. Bank secrecy and reluctance to disclose the names of beneficial owners of shares can make regulation of banks from countries which favor such practices extremely difficult. It is also difficult to examine and supervise branches and subsidiaries of U.S. banks which are located in these countries. The result has been a substantial erosion of U.S. regulatory standards as applied to the largest U.S. banks with extensive foreign operations and certain foreign banks operating here as well.

² The subsidiary was based in London and heavily involved in British real estate but it was the parent bank in Israel that failed. In another case involving a joint venture between a U.S. bank and English real estate interests, funds were made available to the floundering subsidiary bank by a British clearing bank and by the U.S. parent bank.

8. JOINT INVESTMENTS BY U.S. AND FOREIGN BANKS

The joint investments of U.S. and foreign banks in overseas banking, trust and investment banking affiliates should also be taken into account in assessing competitive advantages enjoyed by foreign banks operating in the United States. The material in Appendices B, C, and D were derived from various sources and, while incomplete and in some cases outdated, does provide an indication of the number of such investments. It also indicates that, in a number of cases, the U.S. and foreign banks which share joint investments have established offices in cities in which the other bank has its home office. For example, Bank of America and Banque Nationale de Paris have 3 investments in common. The French bank has a banking subsidiary, French Bank of California, and an agency in San Francisco where the home office of the U.S. bank is located. Bank of America has a branch and 2 affiliates in Paris, one a merchant bank in which Banque Nationale de Paris has an interest. Further, both have subsidiaries in New York—The French-American Banking Corporation, a New York Investment Company subsidiary, and Bank of America, an Edge Act corporation.

Interlocking investments by U.S. banks in domestic institutions are prohibited. U.S. banks are, however, permitted to make joint investments in Edge corporations and foreign institutions but, on the whole, such investments are made by banks located in different States. The law requires that all international or foreign investments of U.S. banks be in institutions which do no business in the United States except that which, in the opinion of the Federal Reserve Board, is incidental to their international business.¹ As the example given above indicates, the commonality of investments between U.S. and foreign banks tends to circumvent the intent if not the letter of the law.

Direct investments by U.S. banks in foreign banks also may result in circumvention of the intent of U.S. anti-trust law as the following example illustrates. Until recently, Chase Manhattan Bank had a 13.7 percent investment in Standard and Chartered Banking Group Ltd., a holding company for two major London banks. Chartered Bank has 2 branches in New York and Standard Bank has an agency there. One of the two banks in which Chase had an investment through the holding company also has a subsidiary in the United States, Chartered Bank of London, San Francisco which also operates offices in Los Angeles and Oakland. The Federal Reserve Board has ruled that Chase Manhattan must divest its interest in Standard and Chartered on the grounds that the California subsidiary violates the law prohibiting interstate branching. The branch and agency operations in New York apparently did not enter into the decision since they were chartered outside Federal law. Moreover, it is clear that the Justice Department has not yet confronted the implications of international banking for U.S. antitrust policy.

¹ In a recent paper "Growth of International Banking, Implications for Public Policy," Andrew F. Brimmer and Frederick R. Dahl comment that "It is becoming increasingly difficult to visualize the existence of any foreign company of significance that does not have operations in the United States."

The advantage of the joint investment and the way in which it has introduced an anti-competitive bias in banking into the United States can be illustrated by examining the interrelationships between Chase Manhattan Bank, New York and Mitsubishi Bank, Tokyo. Chase and Mitsubishi are two of 6 banks owning an interest in the Orion Group of Banks, London, one of the larger of the consortium banks active in international banking markets.² In October 1974 Orion managed a 5-bank syndicated loan to Mitsubishi International Corporation, New York, the U.S. subsidiary of one of the major Japanese trading companies and, like Mitsubishi Bank, a member of the Mitsubishi "zaibatsu" or group of companies. The loan was a 3-year Eurodollar credit in the amount of U.S. \$30 million. The 5 banks providing the funds included Orion, Chase Manhattan Limited, London, and 3 other banks which are subsidiaries of the major banks which hold an interest in Orion.³ This instance of a banking group providing credit to the non-financial affiliate of one of the banks in the group (and a U.S. based affiliate at that) is not uncommon in the Eurodollar market and illustrates the extent to which U.S. regulatory policies have been undermined by developments in international banking.

The reintroduction of the syndicated loan makes it both natural and inevitable that groups of banks will coalesce around some common denominator in order to provide a large and relatively stable source of funds to meet the multi-million dollar needs of the various banks' corporate customers.⁴ The possibility that joint investments serve such a purpose is very real. The result, as with all cartels, is an increase in concentration within the banking industry at the expense of those banks (both here and abroad) which are not of sufficient size to engage in international operations. It is a commonplace of U.S. regulatory tradition to view banking as unique among industries in that an increase in banking concentration frequently results in concentration in other areas of the economy. Ideally banks merely serve as intermediaries in allocating credit. When they begin to serve internal purposes—particularly when they have interests in non-banking enterprises—they will tend with increasing frequency to ignore the needs of the majority of borrowers in favor of the few.

² For Orion's other parents, see Appendix B. Chase and Mitsubishi also share an interest in Diamond Lease Company, Tokyo, and in Libra Bank, London. Chase has branches in Tokyo and Osaka, an investment affiliate in Tokyo, and an Edge Act subsidiary in Los Angeles. Mitsubishi has a banking subsidiary in Los Angeles, agencies in Los Angeles and New York, minor investments in securities affiliates in New York and a representative office in Chicago. In addition to its investment in Orion and Libra, Chase has 3 branches in London, a banking affiliate, a trust affiliate and an investment affiliate. Mitsubishi has a branch in London and an interest in Japan International Bank, London together with 3 other Japanese banks and 3 Japanese securities houses. As noted, Mitsubishi also has minor investments in the New York City subsidiaries of two of these partners, Nikko Securities and Yamaichi Securities. In December 1974 Chase Manhattan, Mitsubishi and a Hong Kong based subsidiary of Orion joined with another partner to establish Amanah Chase Merchant Bank, Ltd., Kuala Lumpur, Malaysia.

³ The other banks were International Westminster Bank Limited, a subsidiary of National Westminster Bank, London; RBC Finance B.V., a subsidiary of Royal Bank of Canada, Montreal and West L. B. International S.A., a subsidiary of Westdeutsche Landesbank Girozentrale, Chase Manhattan and Orion arranged the \$420 million loan to Burnah to acquire the U.S. based Signal Oil Company and Royal Bank of Canada was one of the participating banks.

⁴ A syndicated loan is one in which the syndicating bank guarantees that it will obtain commitments from other banks for a loan of substantial size and receives a management fee in return for the guarantee. When a company or governmental unit wishes to borrow \$200 million or more, a number of banks are required to participate because of the legal limit for U.S. banks on loans to one borrower. Banks from countries which are not subject to actual legal limits conform to some extent in limiting loans to one borrower as a matter of prudence.

9. THE IMPACT OF FOREIGN BANKS ON THE DOMESTIC MONETARY SYSTEM

Where and in what kinds of institutions foreign banks hold their U.S. assets and liabilities is important in evaluating their relative impact on the monetary system. As Table 5 indicates, the overwhelming majority (71.6 percent) of foreign banking activity takes place in New York and involves very little retail activity. Of the aggregate assets of all offices in New York, California and Illinois, subsidiaries—which alone are capitalized have deposits insured by the FDIC and are subject to Federal supervision—held only \$7.3 billion or 16.2 percent of the total, while branches held \$10.9 billion or 24.1 percent and agencies held \$24.8 or 54.8 percent of the total.

Since a substantial portion of foreign bank assets are held by the New York branches and agencies, an understanding of their structure and operations seems particularly useful. As noted elsewhere, agencies are legally a part of the parent bank and not subject to the separate-entity provisions which apply to branches under New York law. Branches are subject to limits on loans to one borrower based on the capital position of the parent bank but there are no limits on loans by agencies. This is the principal attraction of the agency form for the Japanese banks since it allows them to focus on the needs of the large Japanese trading companies which are a part of the same “zaibatsu” or family group of companies. Loans by the Japanese agencies in New York and California have financed the bulk of U.S.-Japanese trade over the last decade. These activities are directly or indirectly financed in turn by U.S. banks since the Japanese Government limits the amount of funds which the parent banks can supply to their U.S. agencies and they therefore depend on the domestic or Eurodollar interbank markets for funds.¹

The U.S. agencies, branches and New York Investment Company² subsidiaries hold about 70 percent of U.S. assets of foreign banks. An examination of their aggregate balance sheet (Tables 7 and 8) indicates the basic wholesale and international character of the banking business they conduct. The major portion of their funds (between 48 and 52 percent) are supplied to other banks with about one-third due from banks in the United States. About one-third of their assets are commercial and industrial loans, the bulk of which (one-fourth of

¹ Klopstack, Fred H., “Foreign Banks in the United States: Scope and Growth of Operations,” Monthly Review, Federal Reserve Bank of New York, June 1973, p. 143.

The U.S. agencies of Japanese banks also make heavy use of the U.S. acceptance market to finance Japanese trade with third countries. In January 1975 there were \$18.6 billion acceptances outstanding of which \$9.7 billion—more than half—were drawn to finance trade between countries other than the United States and largely involved Japanese exports and imports. Bills drawn to finance U.S. exports totaled \$4.3 billion and the total for U.S. imports was \$4.1 billion. Only a very small part of the acceptance market reflects use for domestic purposes. Bills drawn to finance domestic storage of goods and domestic shipments totaled \$308 million and \$105 million respectively.

² There were three companies owned by foreign residents and nine owned by U.S. residents chartered under the New York Investment Company Act at year-end 1974. The companies owned by U.S. residents are engaged in a domestic finance company business. The foreign-owned companies conduct an international banking business. Their activities are similar to those of foreign bank agencies. Unlike foreign bank branches chartered under New York State law, the New York investment companies cannot accept domestic deposits.

total assets) are loans to U.S. companies. Foreign branches, agencies and investment company subsidiaries reported \$11.3 billion of commercial and industrial loans to U.S. companies at the end of October 1974. They hold about 9 percent of all business loans made by commercial banks in the United States. Foreign assets are less than one-third of their total assets. This data raises questions as to whether the accepted description of their activities as being involved primarily in international banking is correct. Their U.S. loans may be export related but information is not sufficient to confirm that as fact.

On the liability side, some 70 percent of the funds of foreign bank branches, agencies and investment company subsidiaries are obtained from other banks. On average, 40 percent of these funds are supplied by the parent bank network and 30 percent by non-related banks. Non-related U.S. banks provide about a quarter of total liabilities. Only 6.4 percent of total liabilities are non-bank U.S. deposits. Most of these deposits represent large denomination CD's issued by the New York branches. Only a few of the New York branches do a retail banking business.³

As Table 8 indicates, the nonsubsidiary offices of foreign banks have net liabilities to other banks ranging between 19 and 25 percent. This reflects their dependence on the parent network and on other, mainly U.S., banks. This degree of involvement in the interbank market increases the likelihood that problems of other banks will affect the U.S. agencies and branches of foreign banks and be passed by them in turn to still other banks. The presence within the U.S. banking system of this kind of banking operation requires careful appraisal of its impact since the only existing safeguard (absent reserve requirements, capital restrictions, limits on loans, insurance, etc.) is the willingness of the central bank in the country in which the parent bank is located to act as lender of last resort.

Safeguards are no less important to agencies than to subsidiaries and branches and the fact that they are not available reflects misunderstanding of the significance of their operations. Traditional safeguards are not applied by State authorities because agencies are not permitted to accept depositors' funds. But, as noted, their net liabilities to other banks are in excess of 20 percent of total assets/liabilities and these liabilities are, ultimately, depositors' funds. Little protection is afforded depositors in the U.S. banking system if they are prohibited from making deposits in unregulated banking institutions but their banks are permitted to sell their deposits to these institutions.

The substantial variation in net foreign liabilities shown in Table 8 indicates the degree to which foreign branches and agencies respond to changes in interest rates between U.S. and international markets. As noted earlier, there was a 25 percent increase in their claims on foreigners between April 24 and June 30, 1974, or a net outflow of \$1.6 billion through the foreign branches and agencies for the 2 month period. Net foreign liabilities fell to a low of 9.7 percent on June 30 but then rose again to a high of 18.2 percent on October 31. Most of the increase in foreign lending in the spring of 1974 was to other foreign banks (a 42.5 percent increase) and the parent network (a 27.6 percent increase). The inflow in subsequent months was from the same sources.

Table 8 also indicates that foreign agencies and branches are net suppliers of funds to the U.S. market. But this must be understood in

³ The branches of Puerto Rican banks are primarily engaged in retail banking.

the context of the total parent bank network since they serve as both a source of dollars for parent bank activities in international markets (about 12-13 percent of total assets) and an outlet for Eurodollar funds of the parent network (30-33 percent of total liabilities). The U.S. branches and agencies of foreign banks are part of the mechanism which generates growth in the Eurodollar market. They can borrow dollars in New York for the parent bank's London or Nassau branch while the parent's foreign network supplies Eurodollars funds to be loaned in the New York interbank market and for direct lending to U.S. corporations. In either case, a deposit is created in an American bank and, unless offset by the Federal Reserve, there is an increase in the U.S. money supply.⁴

Eurodollars borrowed from a U.S. bank's own foreign branch are subject to reserve requirements, and the Federal Reserve has requested that foreign branches and agencies maintain the same reserve requirements on Eurodollar borrowings from the parent network on a voluntary basis, that they be deposited with a member bank and redeposited by the member bank with its district Federal Reserve bank. Requiring that reserves be held against Eurodollar borrowings makes them more comparable in cost to domestic funds and thus discourages an increase in use as an alternative source of funds. But when domestic funds are scarce because the Federal Reserve has curtailed the supply of reserves in an effort to restrain the economy, then there is a substantial increase in borrowings of Eurodollars since they are not subject to restraint and are thus more plentiful. Such a situation occurred in the period from July to October 1974. The U.S. branches and agencies of foreign banks increased their foreign liabilities by \$1.8 billion and increased their loans to U.S. corporations by \$1.4 billion. As these figures indicate, the Federal Reserve's efforts were undermined by the inflow of Eurodollars and it responded by restricting reserves further in an effort to offset the inflow.⁵

Domestic monetary policies are undermined by the Eurodollar market during periods of ease as well. In a speech delivered April 8, 1975, Federal Reserve Board Governor, Robert C. Holland, said:⁶

"* * * a policy of monetary expansion might have less predictable effects on expanding credit in the United States and might be rendered less effective if U.S. banks utilized available resources to expand their overseas Eurodollar activities rather than for loans which might expand business activity in the United States."

Governor Holland might have applied this description to events in the period from November 1972 to March 1973. A substantial increase in the U.S. money supply followed by dollar outflows probably contributed to the downward pressure on the dollar which led to the February 1973 devaluation as relative interest changes induced a movement out of dollars into other currencies. As noted earlier, U.S. offices of foreign banks contributed \$1.2 billion to the outflow in February and U.S. banks contributed as well. There were a 53 percent

⁴ If the funds are loaned to a U.S. corporation, it is most likely that they will be deposited in the corporation's account with a U.S. bank. If the loan is made by an agency the likelihood increases since agencies cannot accept deposits. The interbank loan may be a time deposit, a loan maturing in 1 day and settled in immediately available funds (Federal funds) or a term loan. If it is a time deposit or a loan it will be subject to reserve requirements. Liabilities classed as Federal funds purchased and securities sold under repurchase agreements are not subject to reserve requirements.

⁵ In a speech entitled "Have We Learned From Our Mistakes" (March 24, 1975) Federal Reserve Board Governor Philip E. Coldwell criticized those who "fail to recognize the impact of the large and volatile foreign balances which move in and out of our banking system. Since such balances count toward the money supply, their extreme shifts necessarily complicate any attempt to meet a particular target."

⁶ The speech, "Public Policy Issues in U.S. Banking Abroad," was delivered at the 53rd annual meeting of the Bankers' Association for Foreign Trade.

increase in the assets of foreign branches of U.S. banks as opposed to increases of approximately 30 percent in both 1971 and 1972. In order to accommodate so substantial an increase in their Eurodollar activities, American banks necessarily made use of the increased resources available to domestic offices for overseas lending. It may be that the central bank over-responded because increases in reserves were not having the desired impact on domestic economic activity. As funds were siphoned off for foreign lending, the Fed continued to pump in reserves in an effort to meet both its immediate targets and its overall economic objectives.

As noted above, these short-term capital flows occur in response to changes in interest rates. They are not generated by the needs of international trade and may not, in fact, accommodate those needs. But they have a profound impact on international trade due to their effect on exchange rates. Outflows weaken the dollar in exchange markets while inflows result in an increase in its value in relation to other currencies because they induce changes in dollar interest rates relative to foreign currencies. These shifts are then reflected in prices of exports and imports which in turn influence changes in prices, production and the allocation of resources in domestic markets.

The volatile nature of short-term capital flows over the past decade is indicative of the fact that the Eurodollar market is one in which financial rather than economic objectives have been accommodated. Governments have acquiesced to the growth of this market because its impact has not been understood. It was thought that events in the Eurodollar market could be isolated from events in national economies and that multinational banking institutions could be segregated from domestic banking systems. This now seems less evident. Questions as to the implications of continued growth of the Eurodollar market were raised by Governor Holland in April 1975 as follows:

"My concern over the existence of an unregulated and reserve-free market in bank services is prospective. I am concerned that in the future the existence of this market will become increasingly attractive to potential customers who today may not regard it as a feasible alternative. I believe that the present is a good time for us to begin to think about some of the policy implications of a continued growth of an unregulated market in banking, for I am convinced that the cost advantages of the Eurodollar market will promote its continued growth into the foreseeable future."⁷

⁷ *Ibid.*, p. 20.

TABLE 7.—SELECTED ASSETS OF U.S. AGENCIES, BRANCHES AND NEW YORK INVESTMENT COMPANIES' SUBSIDIARIES OF FOREIGN BANKS, 1973-74

[Dollar amounts in millions]

| | June 30, 1973 | | June 30, 1974 | | Dec. 31, 1974 | | June 30, 1975 | | Aug. 27, 1975 | |
|--|---------------|--------------------------------------|---------------|--------------------------------------|---------------|--------------------------------------|---------------|--------------------------------------|---------------|--------------------------------------|
| | Amount | As a per- cent of total assets | Amount | As a per- cent of total assets | Amount | As a per- cent of total assets | Amount | As a per- cent of total assets | Amount | As a per- cent of total assets |
| 1. Deposits due from nonrelated commercial banks: | | | | | | | | | | |
| A. In United States | \$3,607 | 12.5 | \$4,450 | 11.0 | \$4,193 | 9.5 | \$5,258 | 11.5 | \$3,331 | 7.3 |
| B. In foreign countries | 559 | 1.9 | 817 | 2.0 | 876 | 2.0 | 1,147 | 2.5 | 1,112 | 2.4 |
| C. Total | 4,166 | 14.5 | 5,267 | 13.0 | 5,069 | 11.4 | 6,405 | 14.0 | 4,443 | 9.8 |
| 2. Loans to nonrelated institutions: | | | | | | | | | | |
| A. To commercial banks in United States, total | 2,824 | 9.8 | 3,767 | 9.3 | 3,093 | 7.0 | 3,529 | 7.5 | 4,917 | 10.8 |
| 1. Maturing in 1 day and settled in immediately avail- able funds | 1,890 | 6.6 | 2,060 | 5.1 | 984 | 2.2 | 1,011 | 2.2 | 2,063 | 4.5 |
| B. To foreign banks | 916 | 3.2 | 2,071 | 5.1 | 2,399 | 5.4 | 2,297 | 5.0 | 2,005 | 4.4 |
| C. Commercial and industrial, total | 9,641 | 33.6 | 13,410 | 33.2 | 16,132 | 38.4 | 16,042 | 35.2 | 15,959 | 35.0 |
| 1. To United States | 7,114 | 24.7 | 9,930 | 24.6 | 12,107 | 27.3 | 12,213 | 26.8 | 12,210 | 26.8 |
| 2. To foreign | 2,527 | 8.8 | 3,480 | 8.6 | 4,025 | 9.1 | 3,829 | 8.4 | 3,749 | 8.2 |
| D. All other loans, total | 961 | 3.3 | 1,014 | 2.5 | 1,217 | 2.7 | 1,070 | 2.3 | 1,049 | 2.3 |
| 1. To United States | 788 | 2.7 | 649 | 1.6 | 970 | 2.2 | 746 | 1.6 | 666 | 1.5 |
| 2. To foreign | 173 | .6 | 365 | .9 | 247 | .1 | 324 | .7 | 383 | 1.0 |
| E. Total | 14,341 | 49.9 | 20,262 | 50.2 | 22,842 | 51.8 | 22,939 | 50.3 | 23,931 | 52.5 |
| 3. Due from directly related institutions: | | | | | | | | | | |
| A. In the United States | 3,183 | 11.1 | 3,959 | 9.8 | 4,796 | 12.8 | 4,448 | 9.8 | 4,693 | 10.3 |
| B. In foreign countries | 3,726 | 12.9 | 6,552 | 16.3 | 6,466 | 14.6 | 6,554 | 14.4 | 7,570 | 16.6 |
| C. Total | 6,909 | 24.0 | 10,511 | 26.1 | 11,262 | 25.4 | 11,002 | 24.1 | 12,263 | 26.9 |
| 4. Total due from related and nonrelated banks: | | | | | | | | | | |
| A. From banks in United States | 9,614 | 33.5 | 12,176 | 30.2 | 12,082 | 27.3 | 13,235 | 29.0 | 12,941 | 28.4 |
| B. From banks in foreign countries | 5,201 | 18.1 | 9,440 | 23.4 | 9,741 | 22.0 | 9,998 | 21.9 | 10,687 | 23.5 |
| C. Total | 14,815 | 51.6 | 21,616 | 53.6 | 21,823 | 49.3 | 23,233 | 50.9 | 23,628 | 51.9 |
| 5. Total foreign assets | 8,618 | 30.0 | 14,024 | 34.8 | 15,012 | 33.7 | 15,686 | 34.4 | 15,804 | 34.7 |
| 6. Total assets | 28,723 | ----- | 40,341 | ----- | 44,300 | 100.0 | 45,611 | 100.0 | 45,544 | 100.0 |

Source: Federal Reserve Board.

TABLE 8.—SELECTED LIABILITIES OF U.S. AGENCIES, BRANCHES AND NEW YORK INVESTMENT COMPANY SUBSIDIARIES OF FOREIGN BANKS, 1973-74
[Dollar amounts in millions]

| | June 30, 1973 | | June 30, 1974 | | Dec. 31, 1974 | | June 30, 1975 | | Aug. 27, 1975 | |
|--|---------------|--------------------------------------|---------------|--------------------------------------|---------------|--------------------------------------|---------------|--------------------------------------|---------------|--------------------------------------|
| | Amount | As a per- cent of total assets | Amount | As a per- cent of total assets | Amount | As a per- cent of total assets | Amount | As a per- cent of total assets | Amount | As a per- cent of total assets |
| 1. Deposits, credit balances and borrowing from other than directly related institutions: | | | | | | | | | | |
| A. Demand deposits: | | | | | | | | | | |
| 1. Due to United States: | \$1,159 | 4.0 | \$2,628 | 6.5 | \$1,975 | 4.5 | \$1,771 | 3.9 | \$1,189 | 2.6 |
| (a) To banks | 1,524 | 1.8 | 1,801 | 4.5 | 1,979 | 2.2 | 862 | 1.9 | 443 | 1.0 |
| 2. Due to foreign: | 1,160 | 4.6 | 1,514 | 3.7 | 1,633 | 3.7 | 1,723 | 3.8 | 1,712 | 3.8 |
| (a) To banks | 555 | 1.9 | 760 | 1.9 | 837 | 1.9 | 844 | 1.9 | 813 | 1.8 |
| 3. Total due to banks | 1,075 | 3.7 | 2,561 | 6.3 | 1,816 | 4.1 | 1,706 | 3.7 | 1,256 | 2.8 |
| 4. Total demand deposits, credit balances, certified and officer's checks, travelers checks, letters of credit, etc. | 3,867 | 13.5 | 6,248 | 15.5 | 5,207 | 11.8 | 5,305 | 11.6 | 4,025 | 8.8 |
| B. Time deposits: | | | | | | | | | | |
| 1. Due to United States: | 1,344 | 4.7 | 1,072 | 2.6 | 897 | 2.0 | 1,523 | 3.3 | 1,758 | 3.9 |
| (a) To banks | 1,153 | 5.5 | 292 | 7.7 | 205 | 5.5 | 169 | 4.4 | 238 | 5.5 |
| 2. Due to foreign: | 1,920 | 6.7 | 2,658 | 6.6 | 3,415 | 7.7 | 3,512 | 7.7 | 3,972 | 8.7 |
| (a) To banks | 292 | 1.0 | 553 | 1.4 | 967 | 2.2 | 1,116 | 2.4 | 1,140 | 2.5 |
| 3. Total due to banks | 445 | 1.5 | 845 | 2.1 | 1,172 | 2.6 | 1,285 | 2.8 | 1,378 | 3.0 |
| 4. Due to foreign governments, central banks and international monetary institutions | 1,077 | 3.7 | 1,129 | 2.8 | 1,082 | 2.4 | 1,039 | 2.3 | 1,171 | 2.6 |
| 5. Total time deposits | 3,265 | 11.4 | 3,371 | 9.2 | 4,313 | 9.7 | 5,034 | 11.0 | 5,730 | 12.6 |

| | | | | | | | | | | |
|---|--------|------|--------|------|--------|------|--------|------|--------|------|
| C. Borrowings: | | | | | | | | | | |
| 1. From U.S. banks: | | | | | | | | | | |
| (a) Maturing in 1 day and settled in immediately available funds: | 6,033 | 21.0 | 8,708 | 21.6 | 10,734 | 34.2 | 10,738 | 23.5 | 9,102 | 20.0 |
| 2. Other United States: | 1,413 | 4.9 | 1,839 | 4.5 | 2,579 | 5.8 | 2,987 | 6.5 | 1,374 | 3.0 |
| 3. Foreign: | 583 | 2.0 | 836 | 2.1 | 791 | 1.8 | 734 | 1.6 | 587 | 1.3 |
| | 150 | .5 | 787 | 1.9 | 828 | 1.9 | 1,088 | 2.4 | 1,367 | 3.0 |
| 4. Total borrowings: | 6,767 | 23.5 | 10,330 | 25.6 | 12,352 | 27.9 | 12,560 | 27.5 | 11,056 | 24.3 |
| D. Total due to nonrelated banks (demand deposits and time deposits and borrowings): | | | | | | | | | | |
| (a) To U.S. banks: | 7,557 | 26.3 | 12,114 | 30.0 | 13,722 | 31.0 | 13,729 | 30.1 | 11,736 | 25.8 |
| (b) To foreign banks: | 6,710 | 23.4 | 10,801 | 26.8 | 11,918 | 26.9 | 11,769 | 25.8 | 9,783 | 21.5 |
| | 847 | 2.9 | 1,313 | 3.2 | 1,804 | 4.1 | 1,960 | 4.3 | 1,953 | 4.3 |
| 2. Due to directly related institutions, total: | 12,669 | 44.1 | 16,825 | 41.7 | 18,648 | 42.1 | 18,285 | 40.1 | 20,684 | 45.4 |
| A. In the United States ² : | 3,127 | 10.9 | 4,232 | 10.5 | 4,681 | 10.6 | 4,739 | 10.4 | 5,264 | 11.6 |
| B. In foreign countries: | 9,519 | 33.1 | 12,580 | 31.2 | 13,890 | 31.4 | 13,518 | 29.6 | 15,406 | 33.8 |
| 3. Total due to related and nonrelated banks: | 20,226 | 70.4 | 28,939 | 41.7 | 32,370 | 73.1 | 32,014 | 70.2 | 32,420 | 71.2 |
| 4. Total foreign liabilities: | 13,054 | 45.4 | 17,955 | 4.5 | 20,290 | 45.8 | 20,612 | 45.2 | 23,053 | 50.6 |
| 5. Total liabilities, reserves and capital accounts ³ : | 28,723 | | 40,341 | | 44,305 | | 45,611 | | 45,544 | |
| 6. Total liabilities of all reporting U.S. agencies, branches and domestic banking subsidiaries of foreign banks: | 33,975 | | 48,127 | | 56,167 | | 57,325 | | 56,372 | |
| (a) Liabilities of agencies, branches and New York investment companies as a percentage of the total: | | 84.5 | | 83.8 | | 78.9 | | 79.6 | | 80.8 |

¹ Includes about \$200,000,000 savings deposits.

² The bulk is due to other branches and agencies in the United States. Only between \$25,000,000 to \$45,000,000 is due to banking subsidiaries and other related institution.

³ Capital accounts were \$175,000,000, \$183,000,000, \$208,000,000 and \$223,000,000 for the 4 periods covered and relate primarily to the New York Investment Co. subsidiaries.

Source: Federal Reserve Board.

TABLE 9.—FOREIGN AND INTERBANK CLAIMS AND LIABILITIES OF U.S. AGENCIES, BRANCHES AND NEW YORK INVESTMENT COMPANY SUBSIDIARIES OF FOREIGN BANKS, 1973-74
[Dollar amounts in millions]

| | June 30, 1973 | | June 30, 1974 | | Dec. 31, 1974 | | June 30, 1975 | | Aug. 27, 1975 | |
|---------------------------------|---------------|--|---------------|--|---------------|--|---------------|--|---------------|--|
| | Amount | As a per- cent of total assets/ liabilities | Amount | As a per- cent of total assets/ liabilities | Amount | As a per- cent of total assets/ liabilities | Amount | As a per- cent of total assets/ liabilities | Amount | As a per- cent of total assets/ liabilities |
| Foreign claims..... | \$8,618 | 30.0 | \$14,024 | 34.8 | \$15,023 | 33.9 | \$14,786 | 32.4 | \$15,804 | 34.7 |
| Foreign liabilities..... | 13,054 | 45.4 | 17,955 | 44.5 | 20,290 | 45.8 | 20,612 | 45.2 | 23,053 | 50.6 |
| Net..... | -4,436 | 15.4 | -3,931 | 9.7 | -5,267 | 11.9 | -5,826 | 12.8 | -7,249 | 15.9 |
| Claims on other banks..... | 14,815 | 51.6 | 21,616 | 51.2 | 21,823 | 49.2 | 23,233 | 50.9 | 23,628 | 51.9 |
| Liabilities to other banks..... | 20,226 | 76.4 | 28,939 | 71.7 | 32,370 | 73.1 | 32,014 | 70.2 | 32,420 | 71.2 |
| Net..... | -5,411 | 18.8 | -8,282 | 20.5 | -10,447 | 23.6 | -8,781 | 19.3 | -8,792 | 19.3 |

Source: Federal Reserve Board.

10. CONCLUSIONS AND RECOMMENDATIONS

International banking—the area in which the major developments in banking have occurred in the past decade—has evolved with only minimal governmental guidance on either national or international levels. The legal and institutional framework in which foreign banks have expanded in the United States and U.S. banks have expanded overseas is not structured in terms of national domestic needs but its continued expansion threatens a domestic banking structure which was framed to meet those needs. Flows of funds in and out of the United States through these institutions affect both international and domestic monetary policy. The immense growth in the pool of funds to which multinational banks have access and the fact that their responses at times have been at variance with policies initiated by the monetary authority constitutes a serious erosion of that authority as well as a competitive advantage over banks operating only in domestic markets.

The need for regulation and supervision of the U.S. activities of foreign banks by Federal authorities has been argued before and legislative proposals were introduced to provide Federal regulation as early as 1967. These bills authorized the Secretary of the Treasury to approve all applications for charters after consultation with the Secretary of State and provided for regulation and examination of foreign banks on the same basis as national banks.¹ By requiring, at an earlier date, that foreign banks conform to laws and regulations applicable to national banks, various competitive advantages which they have acquired as a result of State chartering—interstate banking, securities affiliations, exemption or advantageous treatment with regard to reserve requirements, loan limitations, examinations, etc.—would have been precluded.

But, as these earlier proposals indicate, an attempt now to transfer chartering and regulation of foreign banks to the Federal level will need to deal with the fact that a substantial portion of their activities are in violation of existing Federal banking law. It has been argued that since their involvement in activities which would be unlawful under Federal statutes has grown so extensive, divestiture would result in undue hardships. Others argue that the extensiveness of these violations makes divestiture imperative.

Appendices A and C list the foreign banks engaged in securities operations. Table 9 lists by country the New York, California and Chicago banking assets of foreign banks which receive domestic deposits and/or make domestic loans in more than one of these States.

¹ H.R. 6856, 90th Cong., 1st Sess., introduced by Mr. Patman; S. 1741, 90th Cong., 1st Sess., introduced by Mr. Javits; and H.R. 4841, 91st Cong., 1st Sess., introduced by Mr. Patman. Bills introduced by Mr. Patman and Mr. Rees (H.R. 11440 and H.R. 11597, 93rd Cong., 1st Sess) differ in several respects from the earlier bills but retain their basic philosophy and structural approach. An earlier bill introduced by Senator Javits (S. 3765, 89th Cong., 2nd Sess.) provided for chartering by the Comptroller of the Currency as did a bill introduced by Mr. Gonzalez (H.R. 9367, 90th Cong., 1st Sess.). Unlike the later 1967 and 1969 bills, Senator Javits first bill would have allowed foreign banks to operate as presently in more than one State.

The total of multistate assets, \$40 billion, is almost 88 percent of the \$45.6 billion total for all foreign banking operations in these States and 83 percent of total U.S. assets of foreign banks reported to the Federal Reserve Board on June 30, 1974. To grandfather these operations without restricting their ability to accept domestic deposits and make domestic loans in more than one State would perpetuate a substantial competitive advantage for foreign banks over U.S. banks. Equally important, the 42 banks which now have multistate operations would have a potential for expansion in the future greater than that of their U.S. competitors. As noted above, some of these banks already have operations in the United States of a size which gives them a substantial presence in the U.S. banking market.

TABLE 10.—*U.S. assets of banks with banking operations in more than one State, by country, June 30, 1975*

| | <i>Assets¹ (thousands)</i> |
|------------------|---|
| Brazil..... | \$657, 070 |
| Canada..... | 6, 355, 539 |
| England..... | 5, 173, 809 |
| France..... | 3, 276, 121 |
| Germany..... | 1, 231, 765 |
| Greece..... | 234, 469 |
| Hong Kong..... | 256, 588 |
| Israel..... | 22, 313 |
| Italy..... | 1, 255, 361 |
| Japan..... | 20, 353, 565 |
| Korea..... | 162, 414 |
| Mexico..... | 8, 011 |
| Netherlands..... | 832, 923 |
| Philippines..... | 97, 495 |
| Switzerland..... | 2, 703, 590 |
| Total..... | ² 46, 088, 513 |

¹ Assets for New York, California and Illinois.

² Total includes European-American group with assets of \$3,517,480. The parent banks which hold shares in this consortium are from Austria, Belgium, England, France, Germany and the Netherlands.

Source: State Banking Departments.

Another problem pointed up by the previous legislative proposals is the extent to which domestic banking law is no longer applicable to international banking. It is not possible, for example, to impose reserve requirements on deposits of banking offices which do not accept deposits. Nevertheless, these banking offices, the New York and California agencies, do have liabilities which are as available for domestic lending as are demand deposits and should be regulated and made responsive to monetary control.

In dealing with these problems, it seems reasonable to accept the existing distinction between domestic and international banking and shape a regulatory framework at the Federal level which will reflect that distinction. Given the differences in operations, it would seem more reasonable to establish a regulatory context in which there is comparability of treatment for agencies and branches of foreign banks and for overseas branches of U.S. banks. For example, additional regulation needed to improve monetary control should be imposed on both foreign branches here and U.S. branches overseas on the same basis. This would provide a needed first step toward regulation of the Eurodollar market as well as improve the ability of the Federal Reserve to deal with short-term flows through these offices.

A limited effort in this direction has already been made. As noted above, foreign bank branches and agencies have already been requested to keep the same reserve requirements against Eurodollar borrowings from the parent bank as do U.S. banks against Eurodollar borrowings from their branches. It would seem more appropriate to prescribe a minimum reserve requirement against their total liabilities. Thus, the central bank would have some influence over the rate of expansion of their liabilities, as well as having influence over the source of funds.

State laws dealing with foreign branches and agencies, the Edge Act and Federal regulations covering overseas activities of U.S. banks all provide precedents for dealing with the differences between domestic and international banking. The Edge Act seems particularly applicable to the problem of regulating foreign banks since it deals with international banking subsidiaries located in the United States but permitted to engage only in international activities.² California law also makes a distinction between international and domestic banking, requiring that banks that accept domestic deposits do so through subsidiaries which are fully integrated into the State banking system and subject to supervision and regulation by the Federal Deposit Insurance Corporation. California law requires that foreign banks which wish to do business in the State through offices which are an operating arm of the parent bank be prohibited from accepting domestic deposits.

There is, however, a difference in the way in which the Edge Act applies to international banking subsidiaries of U.S. banks and California law applies to foreign bank branches. The Edge Act was framed to deal with trade financing and it prohibits the corporations from doing any business in the United States which is not incidental to their international business. Thus, Edge Corporations—unlike the branches and agencies of foreign banks in the United States—cannot make loans to U.S. commercial and industrial customers for use in domestic operations.³ For this reason, U.S. banks are allowed to establish Edge Corporations outside the State in which the parent bank is located and in more than one State. If foreign bank branches and agencies were required to conform to this structure—prohibited from accepting domestic deposits as branches already are in California and agencies are in New York, and from making domestic loans—there would be no need to dismantle their existing multistate operations.

Foreign bank subsidiaries are already restricted to a single State because they are covered by the Bank Holding Company Act. Thus a regulatory structure for foreign banks which permitted subsidiary operations as currently conducted and branch or agency operations governed by statutory and regulatory provisions which apply to Edge Corporations would appear to meet the requirements for a rational structure for foreign banking operations in the United States. And it would eliminate some of the advantages foreign banks have now in competing with domestic banks for domestic banking business.

The alternative to such a structure—as in the earlier proposals mentioned—is to attempt to integrate essentially international banking offices into the domestic banking system. Such a structure—re-

² A description of Edge Act corporations is given in footnote 1 in chapter 1, p. 4.

³ As noted above, the U.S. offices of foreign banks are an important source of loans to business and commercial borrowers. While they had only 6½% of total commercial bank assets on September 30, 1975, they made 10% of all commercial and industrial loans.

quiring that branches and agencies be restricted to a single State—is less desirable for two reasons. First, multistate operations are now so extensive that grandfathering becomes a necessity from the point of view of private interests but is totally unacceptable from the point of view of the public interest. Second, permitting foreign banks to continue to accept domestic deposits and make domestic loans while conducting an essentially international business through multistate offices would give statutory blessing to a full integration of domestic and international financial markets.

The degree of integration between domestic and Eurodollar financial markets which had already taken place at the beginning of the decade is only now being recognized. The implications of further integration have not been explored to the extent necessary to ascertain that it will in the future produce benefits that outweigh current disadvantages. Other developed countries recently have taken additional steps to insulate their economies from the impact of the Eurodollar market. Therefore, decisions concerning the operations of foreign banks in the United States which might result in facilitating capital flows should be weighed carefully. It should also be noted that further integration of a fully regulated domestic financial market with an unregulated international market will necessarily favor development of the latter. Such an integration in the future probably is both inevitable and desirable. Thus, it is imperative to take steps which introduce a degree of regulation into the Eurodollar market while meeting the present need to protect the domestic market from the instability which lack of regulation permits.

Another point which should be considered in proposals for regulating foreign bank branches and agencies is the fact that deposit insurance is irrelevant. As noted, agencies do not accept deposits and the deposits of branches are principally large CD's which exceed the \$40,000 insured maximum. For this reason also, it is recommended that domestic operations be limited to foreign banks forming subsidiaries in the United States. It is also recommended that foreign agencies be required to maintain the same 108 percent excess of assets over liabilities as do foreign branches under New York law. Further, it would seem desirable to limit participation of foreign branches and agencies in the interbank market on the same basis as Edge Corporations are restricted since domestic interbank borrowings are an indirect means of receiving domestic deposits and the participation of foreign banks in domestic interbank market is one of the more significant channels through which the domestic and Eurodollar markets are linked.⁴

As has already been noted, subsidiaries of foreign banks are currently covered by Federal law and their activities are integrated into the domestic banking system. But, given prohibitions against foreigners serving on the boards of national banks, only two foreign bank subsidiaries are federally chartered and two of the State chartered subsidiaries are Federal Reserve members. Two factors in particular seem to support those who argue that they should be member banks. The size of most of the parent banks and scope of their operations suggest that their U.S. activities be subject to the same regulations and restrictions as are the top U.S. banks with whom they compete for large scale com-

⁴ By interpretation the Federal Reserve Board limits Edge Corporations to transactions in Federal funds which are used to adjust reserve balances and not as a means of investing funds on a regular basis.

mercial and industrial loans. And their participation in joint ventures with American banks and other foreign banks operating in the United States argues that they be regulated by the same agencies which regulate the large American banks who are their partners.

Violations of the Glass-Steagall Act separating commercial and investment banking activities were not significant when earlier legislation for Federal chartering and regulation of foreign banks was introduced, but the application of Federal law would have prohibited securities affiliations automatically. Foreign banks establishing banking subsidiaries now are subject to the Bank Holding Company Act and to the prohibitions of Glass-Steagall and one bank has been required to divest a one-third interest in a securities affiliate. The fact that 19 banks are now involved in banking through branches and agencies and in securities activities indicates that, as is the case with multistate banking operations, grandfathering would ensure substantial competitive advantages to a number of very large banks.

But there is another issue as well. As shown in Appendix C, foreign banks engaged in securities activities have substantial interlocks with U.S. banks through joint ventures. Direct or indirect interlocks between U.S. banks and foreign banks which deal in securities and underwriting would seem to constitute an indirect violation of Glass-Steagall on the part of the American banks as well.

The argument has been made that joint investments result in a lessening of competition in U.S. banking markets and have led to the formation of interlocking groups of banks on a global scale. The competitive advantages of these transnational banking groups are being considered by the Common Market Commission in a study announced in May 1973 of possible violations of the antitrust provisions of the Common Market Treaty. It is obvious that they should also be considered by U.S. authorities and that no joint investments within the United States should be exempt from regulation because the amount of ownership of individual banks is less than the 25 percent prescribed by the Bank Holding Company Act. To ensure that information necessary to formulate a policy for dealing with overseas joint investments is available, foreign banks with offices in the United States should be required to disclose investments of 5 percent or more in financial or non-financial institutions held in common with U.S. or other foreign banks.

Earlier legislative proposals imposed the obligations of Federal Reserve membership on foreign banks but permitted the individual bank to decide whether or not to seek discount and borrowing privileges. This paper has also argued that the Federal Reserve administer reserve requirements for all foreign bank offices in the United States. But the fact that the international banking operations of the agencies and branches of foreign banks are similar to those of Edge Corporations and that these international banking units of domestic banks, though regulated and supervised by the Board, are not eligible for discount and borrowing privileges argues that like units of foreign banks be treated similarly. Agencies and branches are more a part of the parent bank network than the U.S. banking system, and are engaged in interest rate arbitrage between international and domestic markets. These factors suggest that making Federal Reserve credit

available to these institutions may not be appropriate. The Bank of England and the Bank of Japan do not offer discount and borrowing privileges to foreign banks. It should also be noted that foreign bank branches and agencies cannot now borrow and rediscount with the Fed. Therefore, continuing to withhold these privileges would not appear to impose great hardship.

Foreign banks establishing subsidiaries in the United States are subject to the Bank Holding Company Act and are permitted to expand into non-banking activities within the regulatory framework applicable to U.S. banks. To date there has been very little activity in this area and no problems have emerged. However, without necessarily anticipating problems, it is suggested that consideration be given to the fact that the structure of the majority of international banking institutions is already so complicated as to cause concern regarding a further proliferation of subsidiary and affiliate relationships. It could also be argued that not all activities appropriate to domestic banks are necessarily appropriate to subsidiary banks controlled by parent institutions in another country—for example, in addition to non-banking subsidiaries within the United States, the establishment of branches outside the United States by U.S. subsidiaries of foreign banks.⁵ This is an activity that should be undertaken by the parent bank rather than its U.S. subsidiary in the interest of improved managerial supervision and control, as well as for the sake of avoiding complications in the regulatory structure. When a bank in Country A forms a subsidiary in Country B which establishes a branch in Country C, problems arise in determining the degree of responsibility of each country for regulation of the activities of the branch and the degree of responsibility of each central bank to act as lender of last resort. But there are also abundant examples of such activity among U.S. banks active overseas and—as a hypothetical composite example—having subsidiaries in Luxembourg which control subsidiaries in Switzerland which control a network of affiliate banks in Africa. In such a system, the implementation of traditional concepts of regulation is impossible and the need for new policies relevant to the requirements of international banking is apparent.

Finally, some thought should be given to policies governing the desirable level of foreign bank activity in the United States and the degree of concentration of banks from any one country. Recommendations in this area are beyond the scope of this study but it is suggested that licensing of foreign banks by the Secretary of the Treasury after consultation with the Secretary of State and other administration officials and with State and Federal banking authorities would provide the proper framework for effecting such a policy. The activities of foreign banks in the United States are not merely a banking matter. They relate to such questions of public policy as balance of payments, the value of the dollar, the effectiveness of domestic monetary policy and allocation of U.S. credit resources. For this reason, it is imperative that foreign banks be chartered and made subject to Federal regulation in order to improve the implementation of policies related to these issues.

⁵ Three California subsidiaries of foreign banks—Bank of Tokyo of California, Sumitomo Bank of California, and Lloyd's Bank of California (formerly First Western Bank and Trust Co.)—have overseas branches and subsidiaries with combined assets of \$226,248,923.

APPENDIX A

TABLE I.—FOREIGN BANK OPERATIONS IN UNITED STATES, SEPTEMBER 1975

| Name of bank | Banking operations | | | Securities operations | Worldwide and New York rank of parent bank ¹ | U.S. banking assets (California and New York) Dec. 31, 1972 (thousands) | U.S. banking assets (California, New York and Chicago) June 30, 1974 (thousands) ² |
|------------------------------------|--------------------|---------------------------|---------|--|---|---|---|
| | California | New York | Chicago | | | | |
| ARGENTINA | | | | | | | |
| Banco de la Nacion Argentina | | Branch | | | 166 | NA | 109, 817 |
| AUSTRIA | | | | | | | |
| Creditanstalt Bankverein | | 2 affiliates ³ | | Affiliate branch ⁴ | 102 | (³) | 287, 984 |
| BELGIUM | | | | | | | |
| Banque de Bruxelles | | | | Affiliate, New York | 74 | NA | NA |
| Banque Lambert | | | | do. | 241 | NA | NA |
| Kredietbank | | | | do. | 82 | NA | NA |
| Societe Generale de Banque | | 2 affiliates ³ | | Affiliate branch ⁴ | 53 | (³) | 287, 984 |
| BRAZIL | | | | | | | |
| Banco do Brasil | Agency | Branch | | | 31 | \$313, 019 | 578, 844 |
| Banco do Estado de Sao Paulo | | Agency | | | 245 | NA | 113, 508 |
| Banco Real | | Branch | | | 524 | 50, 764 | 61, 682 |
| CANADA | | | | | | | |
| Bank of British Columbia | Agency | | | | 633 | NA | 49, 451 |
| Bank of Montreal | Sub., agency | Sub., agency | | | 28 | 948, 140 | 1, 182, 344 |
| Bank of Nova Scotia | Agency | do. | | Branch, U.S. Virgin Islands, and Puerto Rico, Branches Oregon and Washington | 51 | 655, 107 | 635, 122 |
| Canadian Imperial Bank of Commerce | Agency, sub. | do. | | Branch in U.S. | 21 | 740, 984 | 907, 469 |
| Royal Bank of Canada | Agency | do. | | Virgin Islands, and Puerto Rico, Florida Sub. | 15 | 2, 388, 730 | 3, 398, 232 |
| Royal Trust Co. | | | | | | | |
| Toronto Dominion Bank | Sub., agency | Sub., agency | | | 59 | NA | NA |
| | | | | | | 404, 058 | 981, 475 |

See footnotes at end of table.

APPENDIX A
TABLE 1.—FOREIGN BANK OPERATIONS IN UNITED STATES, JUNE 30, 1974—Continued¹

| Name of bank | Banking operations | | | Worldwide rank of parent bank ¹ | U.S. banking assets (California and New York) Dec. 31, 1972 (thousands) | U.S. banking assets (California, New York and Chicago) June 30, 1974 (thousands) ² |
|--|--------------------|---------------------------|-------------------------------|--|--|---|
| | California | New York | Chicago | | | |
| FRANCE | | | | | | |
| Banque de Suez et de l'Union des Mines | | | | 207 | NA | NA |
| Banque de Paris et des Pays-Bas | | | | 133 | NA | NA |
| Banque de L'Indochine | | | | 233 | NA | 135,000 |
| Banque Nationale de Paris | Sub., agency | Subs. | Branch | 4 | 653,034 | 988,503 |
| Banque Rothschild | | | do | 463 | NA | NA |
| Credit Industriel et Commercial ⁴ | | Branch | Affiliate, New York | 126 | NA | 52,407 |
| Credit Lyonnais | Agency | do | do | 8 | 1,219,922 | 2,027,503 |
| Societe Generale | | 2 affiliates ³ | Affiliate branch ⁴ | 9 | (⁵) | 287,984 |
| GERMANY | | | | | | |
| Bayerische Hypotheken & Wechsel-Bank | | | | 49 | NA | NA |
| Bayerische Vereinsbank | | Branch | Branch | 30 | NA | NA |
| Commerzbank | | do | do | 27 | 355,589 | 459,587 |
| Deutsche Bank | | 2 affiliates ³ | Affiliate branch ⁴ | 5 | (⁵) | 287,984 |
| Dresdner Bank | Agency | Branch | Branch | 10 | 165,890 | 676,027 |
| Westdeutsche Landesbank | | do | Sub., New York | | | |
| GREECE | | | | | | |
| National Bank of Greece | | Sub | Branch | 120 | 105,304 | 214,802 |
| HONG KONG | | | | | | |
| Hong Kong & Shanghai Banking Corp | Agency, sub | Branch | | 77 | 257,943 | 238,896 |
| Shanghai Commercial Bank | Agency | do | Branch, Washington | | NA | 10,869 |
| INDIA | | | | | | |
| State Bank of India | | Branch | | 106 | 19,310 | 27,028 |
| IRAN | | | | | | |
| Bank Melli, Iran | | | | 121 | 25,557 | 25,315 |
| Bank Saderat, Iran | | Agency | | 187 | 1,937 | 1,652 |

ISRAEL

| | | | | | |
|----------------------|-------------|----------------|-----|----------|----------|
| Bank Leumi Le-Israel | Sub. agency | Branch | 96 | 234, 395 | 285, 700 |
| Israel Discount Bank | Sub. branch | Sub., New York | 159 | 324, 042 | 310, 183 |
| Bank Hapoalim, B.M. | Branch | | 143 | | |

ITALY

| | | | | | |
|----------------------------|--------|---|-----|----------|----------|
| Banca Commerciale Italiana | Agency | Branch and affiliate branch, ¹ | 25 | 339, 739 | 872, 197 |
| Banca Nazionale del Lavoro | do. | Affiliate, New York | 24 | 218, 845 | 324, 401 |
| Banco Ambrosiano | do. | Sub., New York | 204 | NA | NA |
| Banco di Napoli | Agency | | 73 | 8, 852 | 8, 170 |
| Banco di Roma | Branch | Affiliate, New York | 52 | 34, 338 | 301, 413 |
| Credito Italiano | do. | | 50 | NA | 321, 134 |

JAPAN

| | | | | | |
|--------------------------------|------------------|---|----|-------------|-------------|
| Bank of Tokyo | Sub., 2 agencies | Affiliate | 33 | 4, 006, 985 | 5, 671, 693 |
| Dai-ichi Kangyo Bank | Agency | Branch Oregon and Washington | 11 | 665, 413 | 1, 276, 458 |
| Daiwa Bank | do. | Sub | 48 | 525, 206 | 557, 925 |
| Fuji Bank | Agency sub | Affiliate, New York ^{6,7} | 17 | 927, 014 | 1, 320, 816 |
| Hokkaido Tokai Bank | Agency | do ^{8,10} | 97 | 44, 469 | 160, 175 |
| Industrial Bank of Japan | Agency sub | Affiliate, New York ^{6,7,8,9,10} | 22 | 49, 387 | 355, 552 |
| Kyowa Bank | do. | | 62 | NA | 303, 249 |
| Long Term Credit Bank of Japan | Branch | Affiliate, New York ⁹ | 35 | NA | NA |
| Mitsubishi Bank | Agency | do ^{8,10} | 20 | 842, 936 | 1, 490, 774 |
| Mitsubishi Trust & Banking | Agency | do ⁸ | 54 | NA | 100, 748 |
| Mitsui Bank Ltd. | Agency sub | Affiliate, New York ⁸ | 42 | 734, 456 | 1, 178, 827 |
| Mitsui Trust & Banking | do. | | 61 | NA | 56, 356 |
| Saitama Bank | Agency | | 76 | 80, 028 | 221, 317 |
| Sanwa Bank | Sub. agency | Branch | 23 | 739, 586 | 1, 691, 278 |
| Sumitomo Bank | do. | Affiliate, New York ⁹ | 16 | 1, 342, 752 | 2, 415, 882 |
| Sumitomo Trust & Banking Co | do. | do ⁹ | 56 | NA | NA |
| Taiyo Kobe Bank | Agency | Branch, Washington | 40 | 96, 948 | 795, 356 |
| Tokai Bank | Agency sub | Affiliate, New York ⁸ | 38 | 667, 725 | 1, 153, 795 |

KOREA

| | | | | | |
|---------------------|--------|--------|-----|----------|----------|
| Korea Exchange Bank | Agency | Branch | 567 | 123, 781 | 152, 138 |
|---------------------|--------|--------|-----|----------|----------|

MEXICO

| | | | | | |
|-------------------------------|--------|--|-----|---------|---------|
| Banco de Comercio | Agency | | 211 | N.A. | 15, 594 |
| Banco Nacional de Mexico S.A. | do. | | 225 | 10, 456 | 9, 454 |

NETHERLANDS

| | | | | | |
|--------------------------|--------------------------|-------------------------------|----|------------------|----------|
| Alegemene Bank Nederland | Branch | Affiliate, New York | 47 | 300, 313 | 817, 150 |
| Amsterdam Rotterdam Bank | Affiliates, ³ | Affiliate branch ⁴ | 45 | (³) | 287, 984 |

See footnotes at end of table.

APPENDIX A
TABLE 1.—FOREIGN BANK OPERATIONS IN UNITED STATES, JUNE 30, 1974—Continued

| Name of bank | Banking operations | | | Worldwide rank of parent bank ¹ | U.S. banking assets (California and New York) Dec. 31, 1972 (thousands) | U.S. banking assets (California, New York and Chicago) June 30, 1974 (thousands) ² |
|-------------------------------------|--------------------|--------------------------------|-------------------------------|--|---|---|
| | California | New York | Chicago | | | |
| PAKISTAN | | | | | | |
| Habib Bank..... | | Branch, affiliate ¹ | | 414 | 8,906 | 12,170 |
| National Bank of Pakistan..... | | do. | | 473 | 39,062 | 95,380 |
| PHILIPPINES | | | | | | |
| Philippine National Bank..... | Agency | Affiliate ¹ | | 389 | 35,381 | 81,764 |
| PUERTO RICO | | | | | | |
| Banco Credito y Ahorro Ponceño..... | | Affiliate ² | | 495 | 47,437 | 32,945 |
| Banco de Ponce..... | | 10 branches..... | | | 116,858 | 131,765 |
| Banco Popular de Puerto Rico..... | | 8 branches..... | | 404 | 81,150 | 67,540 |
| SINGAPORE | | | | | | |
| Overseas Union Bank..... | | Agency..... | | 669 | NA | 2,642 |
| SWITZERLAND | | | | | | |
| Swiss Bank Corp..... | Agency..... | Branch..... | Branch..... | 36 | 388,274 | 1,045,323 |
| Swiss Credit Bank..... | do. | 1 branch..... | Sub., Affiliate, New York. | 57 | 337,571 | 472,913 |
| Swiss-Israel Trade Bank..... | | Sub..... | | | 293,730 | 261,998 |
| Trade Development Bank..... | | do. | | 491 | 11,643,027 | 12,913,204 |
| Union Bank of Switzerland..... | | do. | Affiliate, New York..... | 37 | NA | NA |
| Continental Trade Bank..... | | Sub..... | | 858 | | |

TAIWAN

International Commercial Bank of China

Agency ----- Branch -----

700

110, 032

145, 492

THAILAND

Bangkok Bank

Agency -----

281

32, 630

123, 853

UNITED KINGDOM

Hill Samuel & Co.

Kleinwort Benson, Ltd.

S. G. Warburg & Co.

Barclays Bk. Ltd. & Barclays Bk. Int'l.

Agency sub -----

Branch -----

Branches Massa-
chusetts and U.S.

Sub., New York
do
Affiliate, New York

266

NA

NA

227

516

6

532, 721

NA

NA

945, 424

Chartered Bank

Sub. agency -----

2 branches -----

Branch -----

Branches Massa-
chusetts and U.S.

Sub., New York
do
Affiliate, New York

136

228, 398

393, 238

Thomas Cook & Sons (Bankers)

Sub -----

Agency -----

Branch -----

Branches Massa-
chusetts and U.S.

Sub., New York
do
Affiliate, New York

19

523, 788

2, 633, 527

Midland Bank

Sub -----

2 affiliates -----

Branch -----

Branches Massa-
chusetts and U.S.

Sub., New York
do
Affiliate, New York

14

(3)

287, 984

National Westminster Bank

Agency -----

Branch -----

Branch -----

Branches Massa-
chusetts and U.S.

Sub., New York
do
Affiliate, New York

7

88, 507

399, 722

Schroders Ltd.¹⁴

Subs -----

Agency -----

Branch -----

Branches Massa-
chusetts and U.S.

Sub., New York
do
Affiliate, New York

449

470, 117

125, 429

Standard Bank

Sub. agency -----

2 branches -----

Branch -----

Branches Massa-
chusetts and U.S.

Sub., New York
do
Affiliate, New York

98

60, 552

141, 741

*Banque de L'Indochine and Credit Industriel et Commercial are owned by Compagnie Financiere de Suez.

¹ Worldwide bank by deposits Dec. 31, 1974, as compiled by the "American Banker".

² Data for Chicago as of Dec. 31, 1974.

³ European American Bank & Trust Co. European American Banking Corporation—branch Los Angeles, assets were \$846,205,000 on Dec. 31, 1972.

⁴ Branch of the European Banking Corp., a British based consortium owned by 7 banks, 6 of whom are the parent banks of European American Bank & Trust Co., New York.

⁵ Established banking operations after reporting date. Information on assets of securities affiliates is not available.

⁶ Nomura Securities—branches in California, Hawaii. Holdings range between 2.1 percent and 5 percent.

⁷ New Japan Securities International which has a branch in Los Angeles. Holdings range 6.9 percent and 9.4 percent.

⁸ Nikko Securities International which has branch offices in Los Angeles and San Francisco. Holdings range from 2.3 percent to 2.5 percent.

⁹ Daiwa Securities—branch in California. Banks listed minority holdings in range of 3.4 percent to 4.2 percent.

¹⁰ Yamachi International America Inc. which has branch offices in Chicago and Los Angeles. Holdings at 8.5 percent.

¹¹ Deposits.

¹² Deposits, Dec. 31, 1974.

¹³ Lloyd's also has an export financing subsidiary in New York. Activities also include those of its subsidiary, Lloyds & Borsa International Bank Ltd., London.

¹⁴ In addition to its banking subsidiaries, Schroders has subsidiaries also engaged in investment counseling, real estate, and leasing.

Source: Conference of State Bank Examiners, State banking departments, and "American Banker."

TABLE II.—GEOGRAPHIC BREAKDOWN OF BRANCHES, AGENCIES AND NEW YORK INVESTMENT COMPANY SUBSIDIARIES OF FOREIGN BANKS, JUNE 30, 1974¹

| Country or area | Number of offices | Amount of assets (millions) | Percent of total assets |
|--------------------|-------------------|-----------------------------|-------------------------|
| Japan..... | 30 | \$16,216 | 43.2 |
| Canada..... | 11 | 6,622 | 17.6 |
| Europe..... | 44 | 12,454 | 33.1 |
| Latin America..... | 10 | 1,119 | 2.9 |
| Middle East..... | 5 | 349 | .9 |
| Far East..... | 14 | 766 | 2.3 |
| Total..... | 114 | 37,526 | 100.0 |

¹ Data for Chicago are for Dec. 31, 1974.

Source: California, Illinois, and New York State banking departments.

TABLE II(a).—GEOGRAPHIC BREAKDOWN OF CALIFORNIA AGENCIES OF FOREIGN BANKS, JUNE 30, 1974

| Country or area | Number of agencies | Amount of assets (millions) | Percent of total assets |
|--------------------|--------------------|-----------------------------|-------------------------|
| Japan..... | 12 | \$6,245 | 78.8 |
| Canada..... | 6 | 604 | 7.6 |
| Europe..... | 8 | 874 | 11.0 |
| Latin America..... | 2 | 60 | .8 |
| Middle East..... | | | |
| Far East..... | 4 | 142 | 1.8 |
| Total..... | 32 | 7,925 | 100.0 |

TABLE II (b).—GEOGRAPHIC BREAKDOWN OF NEW YORK AGENCIES OF FOREIGN BANKS, JUNE 30, 1974

| Country or area | Number of agencies | Amount of assets (millions) | Percent of total assets |
|--------------------|--------------------|-----------------------------|-------------------------|
| Japan..... | 16 | \$9,799 | 59.6 |
| Canada..... | 5 | 6,018 | 36.7 |
| Europe..... | 3 | 150 | .9 |
| Latin America..... | 2 | 122 | .7 |
| Middle East..... | 3 | 38 | .2 |
| Far East..... | 4 | 305 | 1.9 |
| Total..... | 33 | 16,432 | 100.0 |

TABLE II(c) GEOGRAPHIC BREAKDOWN OF NEW YORK BRANCHES OF FOREIGN BANKS, JUNE 30, 1974

| Country or area | Number of branches | Amount of assets (millions) | Percent of total assets |
|--------------------|--------------------|-----------------------------|-------------------------|
| Japan..... | | | |
| Canada..... | | | |
| Europe..... | 15 | \$8,845 | 85.0 |
| Latin America..... | 6 | 937 | 9.0 |
| Middle East..... | 1 | 310 | |
| Far East..... | 5 | 318 | 3.0 |
| Total..... | 27 | 10,410 | 100.0 |

TABLE II(d) GEOGRAPHIC BREAKDOWN OF CHICAGO BRANCHES OF FOREIGN BANKS, DEC. 31, 1974

| Country or area | Number of branches | Amount of assets (millions) | Percent of total assets |
|-----------------|--------------------|-----------------------------|-------------------------|
| Japan | 2 | \$172 | 31.8 |
| Canada | | | |
| Europe | 15 | 366 | 67.9 |
| Latin America | | | |
| Middle East | 1 | .25 | .05 |
| Far East | 1 | .26 | .06 |
| Total | 19 | 538.51 | 99.81 |

¹ Figures do not total due to rounding.

TABLE III.—GEOGRAPHIC BREAKDOWN OF NEW YORK, CALIFORNIA AND CHICAGO SUBSIDIARIES OF FOREIGN BANKS, JUNE 30, 1974¹

| Country or area | Number of subsidiaries | Amount of assets (millions) | Percent of total assets |
|------------------|------------------------|-----------------------------|-------------------------|
| Japan | 8 | \$3,152 | 42.9 |
| Canada | 8 | 531 | 7.2 |
| Europe | 10 | 3,236 | 44.1 |
| (United Kingdom) | (5) | (2,161) | (29.4) |
| Latin America | | | |
| Middle East | 2 | 278 | 3.8 |
| Far East | 2 | 147 | 2.0 |
| Total | 30 | 7,344 | 100.0 |

¹ Data for Chicago are for Dec. 31, 1974. 1 Italian and 2 Japanese banks have subsidiaries in Chicago with total assets of \$272,000,000.

Source: California, Illinois, and New York State banking departments.

TABLE III (a).—GEOGRAPHIC BREAKDOWN OF CALIFORNIA SUBSIDIARIES OF FOREIGN BANKS,¹ JUNE 30, 1974

| Country or area | Number of subsidiaries | Amount of assets (millions) | Percent of total assets |
|-----------------|------------------------|-----------------------------|-------------------------|
| Japan | 5 | \$1,804 | 44.0 |
| Canada | 3 | 394 | 9.6 |
| Europe | 4 | 1,779 | 43.5 |
| Latin America | | | |
| Middle East | | | |
| Far East | 1 | 120 | 2.9 |
| Total | 13 | 4,097 | 100.0 |

¹ The California State banking department reports that 4 additional banks with combined assets of \$281,500,000 are owned by foreign individuals.

TABLE III(b).—GEOGRAPHIC BREAKDOWN OF NEW YORK SUBSIDIARIES OF FOREIGN BANKS, JUNE 30, 1974

| Country or area | Number of subsidiaries | Amount of assets (millions) | Percent of total assets |
|-----------------|------------------------|-----------------------------|-------------------------|
| Japan | 1 | \$1,158 | 38.9 |
| Canada | 5 | 137 | 4.6 |
| Europe | 5 | 1,375 | 46.3 |
| Latin America | | | |
| Middle East | 2 | 278 | 9.3 |
| Far East | 1 | 27 | .9 |
| Total | 14 | 2,975 | 100.0 |

APPENDIX B

JOINT INVESTMENTS OF U.S. AND FOREIGN BANKS¹

| U.S. shareholder(s) | Affiliate(s) | Foreign shareholder(s) |
|---|---|--|
| Bank of America National Trust & Savings Association, San Francisco | Societe Financiere pour les Pays d'Outre Mer (SFOM), Zurich | Banque Lambert, Brussels; Banque Nationale de Paris; Commerzbank A. G., Duesseldorf. |
| Do | Banca per Finanziamenti a Medio Termine S.p.A., Milan | Banca Nazionale dell'Agricoltura, Rome; Banco Ambrosiano, Milan. |
| Do | Commercial & General Acceptances Ltd., Sydney | Commercial Banking Co. of Sydney. |
| Do | Partnership Pacific Ltd., Sydney | Bank of Tokyo Ltd., Tokyo; Bank of New South Wales, Sydney. |
| Do | Banco Real do Canada, S.A., Rio de Janeiro, Brazil | Royal Bank of Canada, Montreal. |
| Do | Societe Financiere Europeene | Dresdner Bank A. G., Duesseldorf; Algemene Bank Nederland N. V., Amsterdam; Barclays Bank Ltd., London; Banque de Bruxelles; Banca Nazionale del Lavoro, Rome; Banque Nationale de Paris; Sumitomo Bank Ltd., Osaka. |
| Do | World Banking Corp., Nassau | Toronto Dominion Bank, Toronto; Banque Lambert, Brussels; Banque Nationale de Paris; Commerzbank A. G., Duesseldorf; Skandinaviska Enskilda Banken, Stockholm; Firma von Lanschot, Amsterdam; J. Clifford Folger. |
| Bank of America (through Bank of America Ltd. Britain) 17.5 percent. | European Brazilian Bank, London | Banco de Brasil, 35 percent; Banque Ameribas, Luxembourg, 17.5 percent (in which Bank of America has an investment); Deutsche Bank, Germany, 15 percent; Union Bank of Switzerland, 15 percent. |
| Bank of America National Trust & Savings Association, San Francisco | Bank of America Ltd., London | Kleinwort Benson & Co., London. |
| Do | Banque Ameribas, Luxembourg | Banque de Paris et Pays Bas, Paris. |
| Do | Ameribas Holdings S.A. | Do. |
| Bankers Trust Co., New York | Societe Generale de Banques au Cameroun | Societe Generale, Paris; Banca Nazionale del Lavoro, Rome; Bayerische Vereinsbank, Munich; Credit Suisse, Zurich; Banque de l'Union Parisienne, Paris; Banque de l'Indochine, Paris; Credit Industriel et Commercial, Paris. |
| Do | Societe Generale de Banques au Congo | Do. |
| Do | Societe Generale de Banques en Cote d'Ivoire | Do. |
| Do | Societe Generale de Banques au Senegal | Do. |
| Brown Bros. Harriman & Co., 22 percent, First National Bank of Minneapolis, 10 percent, Pittsburg National Bank, 10 percent | Brown Harriman and International Banks Ltd., London | Banco Ambrosiano, Italy, 40 percent; Berliner Handels-Gesellschaft-Frankfurter Bank, Germany, 40 percent; Credit Commercial de France, 40 percent; Kredietbank, Belgium, 40 percent; Nederlandsche Middenstands Bank, 40 percent; Williams and Glyn's Bank, England, 40 percent. |
| Brown Brothers Harriman & Co., New York | Fleming, Suez, Brown Brothers, London | Robert Fleming & Company, Ltd., London; Campagnie Financiere de Suez et de l'Union Parisienne, Paris. |

See footnote at end of table.

APPENDIX B—Continued

JOINT INVESTMENTS OF U.S. AND FOREIGN BANKS I—Continued

| U.S. shareholder(s) | Affiliate(s) | Foreign shareholder(s) |
|--|---|---|
| Chase Manhattan Bank, National Association, New York | Libra Bank, London | National Westminster Royal Bank of Canada; Credito Italiano; Mitsubishi Bank, Westdeutsche Landesbank; Swiss Bank Corp.; Banco Espírito Santo e Comercial de Lisboa. |
| Do | Siga Financiera, S.A., Madrid | Euro-Americano de Financiación e Inversiones, S.A., Spain; Standard & Chartered Banking Group Ltd., London; Banco Hispano-Americano, Madrid; Other Spanish stockholders. |
| Do | Diamond Lease Company, Tokyo | Mitsubishi Bank Ltd., Tokyo. |
| Do | Orion Banking Group Ltd., London; (a) Orion Multinational Services; (b) Orion Bank, Ltd.; (c) Orion Termbank. | National Westminster Bank, Ltd., London; Royal Bank of Canada, Montreal; Westdeutsche Landesbank Girozentrale, Duesseidort; Credito Italiano, Milan; Mitsubishi Bank Ltd., Tokyo; Midland Bank, 4.59 percent. |
| Do | Standard & Chartered Banking Group Ltd., London | Chartered Bank Ltd., London; Standard Bank, Ltd., London; National Westminster 8.18 percent. |
| Do | Banco del Comercio, Bogota, Colombia | Dresdner Bank A.G., Frankfurt. |
| Do | Banque de Commerce, S.A., Antwerp, Belgium | Banque de Bruxelles, Brussels. |
| Do | Inversiones Atlantida, S.A., Tegucigalpa, Honduras | Dresdner Bank A.G., Frankfurt. |
| Chase Manhattan Bank, National Association, New York; Manufacturers Hanover Trust Co., New York. | National Investment Bank for Industrial Development, Athens | National Bank of Greece, Athens. |
| Chase Manhattan Bank, National Association, New York | Chase-N.B.A. Group Ltd., Melbourne, Australia | National Bank of Australasia, Ltd., Melbourne. |
| Do | Equipment Leasing Ltd. | Hambros, 29 percent; Standard Bank, 29 percent. |
| Chemical Bank, New York | Development Underwriting Ltd., Australia | Union Bank of Switzerland. |
| Chemical Bank, 30 percent; Northern Trust Co., Chicago, 20 percent. | London Multinational Bank, London | Baring Brothers & Co., London, 20 percent; Credit Suisse, Zurich, 30 percent. |
| Continental Illinois National Bank & Trust Co., Chicago, 10 percent | H. & H. Factors, London | Walter E. Heller International Corp., 60 percent; Hambros Bank, 25 percent. |
| Continental Illinois National Bank & Trust Co. | Singapore International Merchants Bankers, Singapore | Crown Agents; Overseas Chinese Banking Corp. |
| Do | Commercial Continental Ltd. | Crown Agents; Credit Commercial de France; Commercial Banking Co. of Sydney. |
| Do | Westralian International Ltd. | Crown Agents; Credit Lyonnais, France; E. D. Sassoon Banking Co., Ltd. |
| Do | Credit Commercial de France | Kredietbank S.A., Belgium; Swiss Bank Corp.; Banque de l'Indochine; Banque Rivaud. |
| Do | E. D. Sassoon Banking, Ltd., London | Do. |
| Do | Sassoon Trustee & Executor Corp., Ltd. | Do. |
| Do | Caribbean Bank, British West Indies | Do. |
| Do | Banque Americano Franco-Suisse pour le Maroc, Morocco | Credit Commercial de France; Swiss Bank Corp. |
| Do | Commercial Bank Zambia Ltd., Zambia | Netherlands Overseas Bank N.V. (Bank Mees and Hope), Amsterdam; Netherlands Bank of South Africa. |
| Do | Credit Commercial de France, Paris | |

APPENDIX B—Continued
JOINT INVESTMENTS OF U.S. AND FOREIGN BANKS 1—Continued

| U.S. shareholder(s) | Affiliate(s) | Foreign shareholder(s) |
|--|--|---|
| Morgan Guaranty Trust Co., New York..... | Morgan & Cie. S.A., France..... | Morgan Grenfell & Co., Ltd.; Mees & Hope; Enskilda Bank. |
| Do..... | Australian United Corporation, Ltd..... | Charterhouse, Japhet, London; Lazard Bros., London; Lazard Freres & Co., New York; Morgan Grenfell & Co., Ltd.; Australian United Investment Bank of New South Wales; Ian Potter & Co., various shareholders. |
| Do..... | Societe Ivoirienne de Banque..... | Credit Lyonnais; Banca Commerciale Italiana; Deutsche Bank. |
| Do..... | Societe Camerounaise de Banque..... | Credit Lyonnais; Deutsche Bank; Banca Commerciale Italiana. |
| Do..... | Banque Commerciale Congolaise, Brazzaville..... | Credit Lyonnais. |
| Do..... | Investment and Merchants Finance Company, Australia..... | Royal Bank of Canada. |
| National Bank of Detroit..... | Western American Bank (Europe) Ltd..... | Hambros Bank. |
| National Bank of Detroit; Wells Fargo Bank NA, San Francisco; Security Pacific National Bank, Los Angeles..... | Rothschild Intercontinental Bank, Ltd. London..... | Rothschild Five Arrows Group; 45.4 percent: N. M. Rothschild & Sons, London, Banque Rothschild, France, Pierson, Heldring & Pierson, Netherlands; Banque Lambert, Belgium, Banque Privee Suisse; Industrial Bank of Japan, 11.37 percent; Others. |
| National City Bank, Cleveland 11.37 percent; Seattle-First National Bank 11.37 percent; First City National Bank of Houston 11.37 percent..... | | Switzerland: Lloyds & Bosca International Ltd., London; Bank of Worms, Group; Lloyds & Bosca International Ltd., London; Bank of Scotland; Hessische Landesbank Girozentrale. |
| Philadelphia National Bank..... | Banque Worms & Cie, S.A., France..... | Chartered Bank 9.5 percent. |
| Philadelphia National Bank 9.9 percent..... | Arbuthnot Latham Holdings, London..... | Arbuthnot Latham 22 percent. |
| Philadelphia National Bank 18 percent..... | Western Credit Holding, London..... | Trade Development Bank, Geneva. |
| Republic National Bank, New York..... | | Generale Occidentale, Paris. |
| Union Bank, Los Angeles; Central National Bank of Cleveland..... | Banque Occidentale pour l'Industrie et de Commerce, Paris..... | Banco di Napoli, Italy; Banque de Neufville, Schlumberger Mollet, Paris; F. Van Landschot Bankers, Amsterdam; Charterhouse Japhet Ltd. |
| United California Bank, Los Angeles; National Shawmut Bank, Boston; Manufacturers National Bank, Detroit; First Pennsylvania Bank & Trust Co., Philadelphia..... | Atlantic International, Bank..... | |

1 Compiled by staff. House Banking, Currency and Housing Committee from various sources.

APPENDIX C

FOREIGN BANKS WITH U.S. SECURITIES AFFILIATIONS AND THEIR U.S. BANK PARTNERS IN JOINT VENTURES

| Foreign bank | U.S. investment company affiliate of foreign bank | U.S. bank partner in overseas joint venture |
|--|--|--|
| Algemene Bank Nederland N.V., Amsterdam. ¹ | ABD Securities Corp. New York, Boston (25 percent). | Bank of America, San Francisco. |
| Amsterdam-Rotterdam Bank N.V., Amsterdam. ¹ | SoGen-Swiss International Corp., New York. | |
| Banca Commerciale, Italiana, Milan. ¹ | Model, Roland & Co., Inc. New York. | Morgan Guaranty Trust Co. (2) N.Y. |
| Banco Ambrosiano, Milan. | Ultrafin International Corp., New York. | Bank of America, San Francisco; Brown Brothers Harriman & Co. N.Y., First National Bank of Minneapolis; Pittsburgh National Bank. |
| Banco di Roma, Rome. ¹ | Europartners Securities Corp., New York. | |
| Bank Leumi, Le-Israel B.M. Tel Aviv. ¹ | Leumi Securities Corp., New York. | |
| Bank of Tokyo Ltd., Tokyo. ¹ | Nomura International Inc., New York, Los Angeles, and San Francisco (5 percent). | Bank of America, San Francisco. |
| Banque de Bruxelles, Brussels. | ABD Securities Corp., New York, Boston (25 percent). | Bank of America, San Francisco; Chase Manhattan Bank, New York; Marine Midland Bank—New York (3). |
| Banque de L'Indochine, Paris. ¹ | Suez American Corp., New York (50 percent). | Bankers Trust Co., New York (4); Continental Illinois N.B. & T.C., Chicago; Marine Midland Bank—New York. |
| Banque de Paris et des Pays-Bas, Paris. | Becker & Warburg-Paribas Group, Inc., Chicago. | Bank of America, San Francisco. |
| Banque de Suez et de l'Union des Mines, Paris. | Suez American Corp., New York (50 percent). | Brown Brothers Harriman & Co., New York. |
| Banque Lambert, Brussels. | New Court Securities Inc., New York. | Bank of America, San Francisco (2); National City Bank, Cleveland; Seattle First National Bank; First City National Bank of Houston. |
| Banque Rothschild, Paris. | New Court Securities Corp., New York. | National City Bank, Cleveland; Seattle First National Bank; First City National Bank of Houston. |
| Bayerische Hypotheken/und Wechsel-Bank, Munich. | ABD Securities Corp., New York, Boston (25 percent). | Crocker National Bank, San Francisco. |
| Commerzbank A. G., Frankfurt/Main. ¹ | Europartners Securities Corp., New York. | Bank of America, San Francisco; First National Bank of Chicago; Irving Trust Co., New York. |
| Credit Lyonnais, Paris. ¹ | Europartners Securities Corp., New York. | Continental Illinois N.B. & T.C., Chicago; Morgan Guaranty Trust Co., New York. |
| Daiwa Bank Ltd., Osaka. ¹ | New Japan Securities Co. Ltd., New York, Los Angeles (6.9 percent); Nomura Securities Co. Ltd., New York, Los Angeles, San Francisco, Honolulu (2.2 percent). | |
| Deutsche Bank A.G., Frankfurt/Main. ¹ | UBS-DB Corp., New York (50 percent). | Bank of America, San Francisco; Morgan Guaranty Trust Co., New York (2). |
| Dresdner Bank A.G., Frankfurt/Main. ¹ | ABD Securities Corp., New York, Boston (25 percent). | Bank of America, San Francisco; Chase Manhattan Bank, New York (2). |
| Robert Fleming & Co. Ltd., London. | Robert Fleming, Inc., New York (100 percent). | Brown Brothers Harriman & Co. New York. |
| Fuji Bank Ltd., Tokyo. ¹ | Nikko Securities International Inc., New York, Los Angeles, San Francisco (2.3 percent); Yamaichi International (America) Inc., New York, Chicago, Los Angeles (8.5 percent). | First National City Bank, New York. |
| Hill Samuel & Co., Ltd., London. | Hill Samuel Securities Corp., New York (100 percent). | Manufacturers Hanover Trust Co., New York. |
| Industrial Bank of Japan, Tokyo. ¹ | Daiwa Securities (America) Inc., New York, Los Angeles (3.4 percent); New Japan Securities International Inc., New York, Los Angeles (9.4 percent); Nikko Securities International Inc., New York, Los Angeles, San Francisco (2.3 percent); Nomura Securities International, Inc., New York, Los Angeles, San Francisco, Honolulu (2.1 percent); Yamaichi International (America) Inc., New York, Chicago, Los Angeles (8.5 percent). | |

See footnote at end of table.

FOREIGN BANKS WITH U.S. SECURITIES AFFILIATIONS AND THEIR U.S. BANK PARTNERS IN JOINT VENTURES—CONTINUED

| Foreign bank | U.S. investment company affiliate of foreign bank | U.S. bank partner in overseas joint venture |
|---|---|---|
| Kleinwort Benson Ltd., London..... | Kleinwort Benson, Inc., New York, Chicago (100 percent). | Bank of America, San Francisco; Brown Brothers Harriman & Co., New York; Marine Midland Bank, New York. |
| Kredietbank, Brussels..... | Ultrafin International Corp., New York.. | Brown Brothers Harriman & Co., New York; Continental Illinois N.B. & T.C., Chicago; First National Bank of Minneapolis; Pittsburgh National Bank. |
| Long Term Credit Bank of Japan, Tokyo. | Daiwa Securities (America) Inc., New York, Los Angeles (3.4 percent). | Manufacturers Hanover Trust Co., New York. |
| Mitsubishi Bank, Ltd., Tokyo ¹ | Nikko Securities International Inc., New York, Los Angeles, San Francisco (2.5 percent); Yamaichi International (America) Inc., New York, Chicago, Los Angeles (8.5 percent). | Chase Manhattan Bank, New York (3); Crocker National Bank, San Francisco; Irving Trust Co., New York. |
| Mitsubishi Trust & Banking Co., Ltd., Tokyo. ¹ | Nikko Securities International, Inc., New York, Los Angeles, San Francisco (2.3 percent). | |
| Mitsui Trust and Banking Co., Ltd., Tokyo. ¹ | Nikko Securities International, Inc., New York, Los Angeles, San Francisco (2.3 percent). | |
| Pierson, Heldring & Pierson, Amsterdam. | New Court Securities Corp., New York.. | National City Bank, Cleveland; Seattle—First National Bank; First City National Bank of Houston. |
| N. M. Rothschild & Sons, London..... | New Court Securities Corp., New York.. | Manufacturers Hanover Trust Co., New York (2); National City Bank, Cleveland; Seattle—First National Bank; First City National Bank of Houston. |
| Rothschild Bank A. G., Munich..... | New Court Securities Corp., New York.. | |
| Sanwa Bank Ltd., Osaka ¹ | Nomura Securities International, Inc., New York, Los Angeles, San Francisco, Honolulu (2.1 percent). | |
| Societe Generale (France), Paris ¹ | SoGen-Swiss International Corp., New York. | Bankers Trust Co., New York (4). |
| Societe Generale Alsacienne de Banque, Strasbourg. | SoGen-Swiss International Corp., New York. | |
| Societe Generale de Banque, Brussels ¹ . | SoGen-Swiss International Corp., New York. | |
| Sumitomo Bank, Ltd., Osaka ¹ | Daiwa Securities (America), Inc., New York, Los Angeles (4.2 percent). | Bank of America, San Francisco. |
| Sumitomo Trust & Banking Co. Ltd., Osaka. | Daiwa Securities (America), Inc., New York, Los Angeles (3.5 percent); New Japan Securities International, Inc., New York, Los Angeles (9 percent). | |
| Swiss Bank Corp., Basle ¹ | Basle Securities Corp., New York (100 percent). | Chase Manhattan Bank, New York; Continental Illinois N.B. & T.C., Chicago (2). |
| Swiss Credit Bank, Zurich ¹ | Swiss American Securities, Inc., New York (100 percent); SoGen-Swiss International, New York. | Bankers Trust Co., New York (4); Chemical Bank, New York; Northern Trust Co., Chicago. |
| Tokai Bank Ltd., Nagoya ¹ | Nikko Securities International, Inc., New York, Los Angeles, San Francisco (2.3 percent). | |
| Union Bank of Switzerland, Zurich..... | UBS-DB Corp., New York (50 percent). | Bank of America, San Francisco; Chemical Bank, New York. |
| S.G. Warburg & Co., Ltd., London..... | Becker & Warburg—Paribas Group, Chicago (25 percent). | |

¹ Foreign banks engaged in both banking and securities activities in the United States.

Note: Number after U.S. bank indicates more than 1 joint investment with the foreign bank.

Source: Compiled from various sources.

APPENDIX D

GEOGRAPHIC AREAS IN WHICH U.S. AND FOREIGN BANKS WITH JOINT INVESTMENTS HAVE OVERLAPPING ACTIVITIES*

| Foreign shareholders | Affiliate | U.S. shareholder |
|---|--|--|
| <p>Banque Lambert, Brussels [FWR: 270].</p> <p>Banque Nationale de Paris [FWR: 4] U.S. representation: banking subsidiary in San Francisco (French Bank of California), with a branch in Los Angeles, banking subsidiary in N.Y. (French-American Banking Corp., which has a New York subsidiary, French American Capital Corp.): branch in Chicago, agency in San Francisco; representative office in New York.</p> <p>Commerzbank A.G., Duesseldorf [FWR: 31] U.S. representation: investment banking affiliate (owns 1/4 interest in Europartners Securities Corp., New York, together with Banco di Roma and Credit Lyonnais, Paris), branch in New York.</p> <p>Banca Nazionale dell'Agricoltura, Rome [FWR: 108] representative office in New York.</p> <p>Banco Ambrosiano, Milan [FWR: 141]. Investment bankers subsidiary in New York.</p> <p>Commercial Banking Company of Sydney [FWR: 171].</p> <p>Bank of Tokyo, Ltd., Tokyo [FWR: 35]. A banking and trust subsidiary in San Francisco with 17 offices in 12 other cities in California; a trust subsidiary with 4 branches in New York City; a banking affiliate in Chicago; a branch in Portland; agencies in Los Angeles, San Francisco, New York and Seattle, and representative offices in Washington, D.C., Chicago, and Houston.</p> <p>Bank of New South Wales, Sydney [FWR: 65]. Representative offices in San Francisco and New York City.</p> <p>Royal Bank of Canada Montreal [FWR: 17]. A trust subsidiary and agency in New York; a branch in the U.S. Virgin Islands; an agency in San Francisco and representative offices in Los Angeles, Chicago, and Dallas.</p> <p>Dresdner Bank A.G., Duesseldorf [FWR: 14]. Owns 25 percent of a securities firm, ABD Corp., with offices in New York and Boston; branch in New York; representative office in Los Angeles.</p> <p>Algemene Bank Nederland N.V., Amsterdam [FWR: 57]. Owns 25 percent of a securities firm, ABD Corp., with offices in New York and Boston. Branch in New York, representative offices in San Francisco and New York.</p> | <p>Societe Financiere pour les Pays d'Outre Mer (SFOM), Zurich. SFOM owns United Overseas Bank, Geneva, which operates the following banks in Africa: Banque Commerciale de Burundi, Bujumbura; Banque Internationale pour le Commerce et l'Industrie du Cameroun, Yaounde; Banque Internationale pour le Commerce et l'Industrie du Congo, Brazzaville; Banque Internationale pour le Commerce et l'Industrie de la Cote d'Ivoire, Abidjan; Commercial Bank of Africa, Ltd., Nairobi, Kenya; Banque Commerciale du Rwanda, Vigali, Banque Internationale pour le Commerce et l'Industrie du Senegal, Dakar, and Barclays Bank, Ltd., Kampala, Uganda.</p> <p>Banca per Finanziamenti a Medio Termine S.p.A., Milan, a commercial bank.</p> <p>Commercial and General Acceptances Ltd., Sydney, a finance corporation.</p> <p>Partnership Pacific Ltd., Sydney, a finance company.</p> <p>Banco Real do Canada, S.A., Rio de Janeiro, Brazil, a commercial bank.</p> <p>Societe Financiere Europeene Luxembourg. A financial holding company which owns Societe Financiere Europeene, Paris, a merchant bank which also provides advisory services for mergers and acquisitions. In 1971 its 7 equal partners had combined resources of \$74 billion. Sumitomo became the 8th partner in October 1972.</p> | <p>Bank of America NT&SA, San Francisco [FWR: 1]. A 34.56-percent ownership in SFOM is held jointly by the bank's Edge Act subsidiary and Banca d'America e Italia, Milan, which is 97 percent owned by the Edge Act subsidiary. The bank's overseas representation in relation to domestic offices of the affiliate and other shareholders is as follows: branches in Brussels and Antwerp, Belgium; Lyon, Marseilles, and Paris, France; Duesseldorf, Frankfurt, and Munich, Germany; and Zurich, Switzerland; banking subsidiary in Germany and 2 affiliates in France.</p> <p>Bank of America NT&SA, San Francisco [FWR: 1], owns 14.366 percent through Banca d'America e d'Italia, Milan which is 90.84 percent owned by Bank of America, New York, the bank's Edge Act subsidiary. Branches, subsidiaries and affiliates in Italy.</p> <p>Bank of America NT&SA, San Francisco [FWR: 1], the bank owns 20 percent through Bank of America, New York, and 0.005 percent through Barnerical International Finance Corp., its 2 Edge Act subsidiaries. The bank has other affiliates in Australia.</p> <p>Bank of America NT&SA, San Francisco [FWR: 1] owns 33.3 percent. Branches in Kobe, Osaka, Tokyo, and Yokohama, Japan; affiliates in Japan and Australia; Edge subsidiary in New York.</p> <p>Bank of America NT&SA [FWR: 1], San Francisco, 50 percent directly owned by the bank. The bank's holding company owns a subsidiary in Vancouver, B.C., Canada.</p> <p>Bank of America, San Francisco [FWR: 1] owns 14.28 percent of the holding company and has an additional 10.71 percent in its subsidiary, SFC, Paris through its Edge Act subsidiary, Barnerical International Financial Corp. Branches in Brussels and Antwerp, Belgium; Birmingham, London (2) and Manchester, England; Lyon, Marseilles, and Paris, France; Duesseldorf, Frankfurt, and Munich, Germany; Kobe, Osaka, Tokyo, and Yokohama, Japan; Amsterdam and</p> |

See footnote at end of table.

GEOGRAPHIC AREAS IN WHICH U.S. AND FOREIGN BANKS WITH JOINT INVESTMENTS HAVE OVERLAPPING ACTIVITIES*—Continued

| Foreign shareholders | Affiliate | U.S. shareholder |
|---|---|--|
| Barclays Bank Ltd., London [FWR: 6]. Owns a banking subsidiary with head office in San Francisco and 26 branches in 14 California cities; a banking subsidiary in New York; with 2 branches; 1 branch in Boston, 1 in Chicago and 1 in the U.S. Virgin Islands; an agency in San Francisco. | | Rotterdam, Netherlands. Merchant banking and factoring subsidiaries in London; banking subsidiary in Germany; banking subsidiary, Banca d'America e d'Italia [FWR: 158], and representative office in Milan, Italy; subsidiary in the Netherlands; affiliates in France (2) and Japan (2). Edge Act subsidiary in New York. |
| Banque de Bruxelles [FWR: 73]. Owns 25 percent of a securities firm, ABD Corp., with offices in New York and Boston. Representative office in New York. | | |
| Banca Nazionale del Lavoro, Rome [FWR: 11]. Subsidiary, branch and representative office in New York. | | |
| Banque Nationale de Paris [FWR: 4]. Banking subsidiary and agency in San Francisco; banking subsidiary in New York, representative offices in Los Angeles and New York. | | |
| Sumitomo Bank Ltd., Osaka [FWR: 13]. Banking subsidiary in California with 14 offices, banking affiliate in Honolulu; agencies in San Francisco and New York, and a representative office in Chicago. | | |
| Kleinwort Benson & Co., London [FWR: 216]. Investment Banking subsidiary in New York. | Bank of America Ltd., London, merchant bank. | Bank of America NT&SA San Francisco owns 75 percent directly. An additional subsidiary and 2 branches in London; branches in Birmingham and Manchester, England; Edge Act subsidiary in New York. |
| Banque de Paris et Pays Bas, Paris [FWR: 153], 40 percent. New York subsidiary: Paribas Corp., a New York securities firm. | Banque Ameribas, Luxembourg. A merchant bank with an office in Paris. | Bank of America NT&SA, San Francisco [FWR: 1], owns 29 percent; its holding company (Bankamerica Corp.) owns 11 percent and the bank's wholly owned subsidiary, Bank of America (Luxembourg) owns 20 percent for a total of 60 percent. Branches in Lyon, Marseilles, and Paris, France; 2 affiliates in Paris; a holding company affiliate in Luxembourg; Edge Act subsidiary in New York. |
| Toronto Dominion Bank, Toronto [FWR: 63]. Banking subsidiary and agency in San Francisco, trust subsidiary and agency in New York; representative offices in Los Angeles, Chicago, and Houston. | World Banking Corp., Nassau [FWR: 592]. | Bank of America NT&SA, San Francisco owns 49.9 percent through its Edge Act subsidiary, Bank of America, New York [FWR: 1]. Branches in Brussels and Antwerp, Belgium; Lyon, Marseilles, and Paris, France; Duesseldorf, Frankfurt, and Munich, Germany; Amsterdam and Rotterdam, Netherlands. Banking subsidiary in Germany; subsidiary in the Netherlands; affiliates in Canada (2) and France (2). Edge Act subsidiary in New York. |
| Banque Lambert, Brussels [FWR: 276]. | | |
| Banque Nationale de Paris [FWR: 4]. Banking subsidiary and agency in San Francisco; banking subsidiary and representative offices in New York; branch in Chicago. | | |
| Commerzbank A.G., Duesseldorf [FWR: 31]. Investment banking affiliate, and branch in New York. | | |
| Skandinaviska Enskilda Banken, Stockholm [FWR: 85]. | | |
| Firma von Lanschot, Amsterdam [FWR: 419]. | | |
| J. Clifford Folger. | | |
| Banque de Paris et Pays Bas [FWR: 153]. 50 percent. | Ameribas Holdings S.A. A holding company which holds 0.17 percent of the shares of its French parent holding company and 0.006 percent of the shares of its American parent. It also holds 7 percent of the shares of General Lease Co., Osaka, which is 10 percent owned by other subsidiaries of Bank of America. | Bank of America NT&SA owns 50 percent through its Edge Act subsidiary, Bamerical International Finance Corp. |
| National Westminster Bank, Ltd., London [FWR: 5]. Partner as of December 1970. U.S. representation: branch and representative office in New York City; branch in Chicago, agency in San Francisco. | Orion Banking Group Ltd., London: (a) Orion Multinational Services; (b) Orion Bank, Ltd. [FWR: 732]; (c) Orion Termbank. Formed in 1970 and jointly capitalized at \$48 million. | Chase Manhattan Bank NA, New York [FWR: 3]. Partner as of December 1970. 1971 shareholdings: 20 percent in (a) held by the Edge Corp., 23.2 percent in (b) held by the bank's holding company, Chase Manhattan |

See footnote at end of table.

GEOGRAPHIC AREAS IN WHICH U.S. AND FOREIGN BANKS WITH JOINT INVESTMENTS HAVE OVERLAPPING ACTIVITIES*—Continued

| Foreign shareholders | Affiliate | U.S. shareholder |
|---|---|--|
| Royal Bank of Canada, Montreal [FWR: 17]. Partner as of December 1970. U.S. representation; subsidiary in New York City, branch in the U.S. Virgin Islands, agencies in New York City and San Francisco, representatives in Los Angeles, Chicago, and Dallas. | | Corp., and 23.2 percent in (c) held by the Edge Corp. Overseas representation where partners have domestic offices: London, 3 branches, 1 banking affiliate, 1 trust, and 1 investment affiliate: Montreal, investment subsidiary; Duesseldorf, branch; Milan, branch; Tokyo, branch, investment affiliate. Edge Act subsidiaries in New York City; (2) and Los Angeles. |
| Westdeutsche Landesbank Girozentrale, Duesseldorf, [FWR: 15]. Partner as of December 1970. U.S. representation: representative in New York City. | | |
| Credito Italiano, Milan [FWR: 36]. Partner as of September 1971. U.S. representation: branch and representative in New York City. | | |
| Mitsubishi Bank Ltd., Tokyo [FWR: 16]. Partner as of April 1972. U.S. representation: subsidiary in Los Angeles, agencies in Los Angeles and New York City, representative in Chicago. | | |
| Standard & Chartered Banking Group Ltd. [FWR: 55], a holding company for the 2 English banks represented by 1,200 offices in sub-Sahara Africa and 193 offices throughout Europe, the Middle East, and Asia. | Chartered Bank Ltd., London [FWR: 136]. Banking subsidiary in California (San Francisco, Los Angeles, and Oakland), agency in San Francisco, 2 branches in New York. Standard Bank, Ltd., London [FWR: 97]. Agency in New York. | Chase Manhattan Bank NA, New York [FWR: 3], holds 13.8 percent through its Edge Corp. 3 branches, trust, investment and multinational banking affiliates in London; an Edge Act subsidiary in Los Angeles. |
| Dresdner Bank A.G., Frankfurt [FWR: 14]. U.S. representation: holds 25 percent interest in a securities firm in New York which has a branch in Boston; Branch in New York and representative office in Los Angeles. | Banco del Comercio, Bogota, Colombia. A commercial bank with \$2.7 million in equity investments in financial and nonfinancial companies in Colombia. | Chase Manhattan Bank NA, New York [FWR: 3], holds 30.4 percent directly and an additional 12.7 percent through its Edge subsidiary. Representation in Germany, 5 branches. |
| Blanque de Bruxelles, Brussels, Belgium [FWR: 73]. U.S. representation holds 25 percent in a New York securities firm which has a branch in Boston, representative office in New York. | Banque de Commerce, SA, Antwerp, Belgium. | Chase Manhattan Bank NA, New York [FWR: 3], owns 49.3 percent. The bank has no other interests in Belgium. |
| Dresdner Bank AG, Frankfurt [FWR: 14]. U.S. representation: holds 25 percent interest in a securities firm in New York which has a branch in Boston; branch in New York and representative office in Los Angeles. | Inversiones Atlantida S.A., Tegucigalpa, Honduras. A holding company which owns 95.6 percent of Banco Atlantida S.A., Tegucigalpa, a commercial bank with \$1.9 million in equity holdings in financial and nonfinancial companies in Honduras. | Chase Manhattan Bank NA, New York [FWR: 3], holds 53.4 percent of the holding company. Representation in Germany: 5 branches. |
| National Bank of Greece, Athens [FWR: 116]. U.S. representation: affiliate, Atlantic Bank of New York, New York City; branch in Chicago. | National Investment Bank for Industrial Development, Athens. | Manufacturers Hanover Trust Co., New York [FWR: 21], holds 4.2 percent through its Edge Corp. |
| National Bank of Australasia, Ltd., Melbourne [FWR: 113]. U.S. representation: New York representative office. | Chase-N.B.A. Group Ltd., Melbourne, Australia. | Chase Manhattan Bank NA, New York [FWR: 3], holds 7 percent through its Edge Corp. 2 branches in Athens, 1 in Piraeus, and 1 in Salonica. |
| Euro-Americana de Financiacion e Inversiones, S.A., Spain. | Liga Financiera, S.A., Madrid. An investment company. | Chase Manhattan Bank NA, New York [FWR: 3], holds 33.3 percent through its Edge Corp. It holds a number of equity investments in other financial and nonfinancial institutions in Australia. |
| Standard and chartered Banking Groups Ltd., London, England [FWR: 55]. U.S. representation: banking subsidiary in San Francisco, 2 branches in New York, agencies in New York and San Francisco. | | Chase Manhattan Bank NA, New York [FWR: 3] owns 30.2 percent through a Bahamian subsidiary of an Edge Act subsidiary. The bank has no other interests in Spain but holds a 13.8 percent interest in Standard and Chartered Banking Group through an Edge Act subsidiary. |
| Banco Hispano-Americano, Madrid [FWR: 86]. Other spanish stockholders. | | |
| Mitsubishi Bank Ltd., Tokyo [FWR: 16]. U.S. representation banking subsidiary in Los Angeles, agencies in Los Angeles and New York, representative office in Chicago. | Diamond Lease Co., Tokyo..... | Chase Manhattan Bank NA, New York [FWR: 3] holds 10 percent through an Edge Act subsidiary. An additional 15 percent is held by the bank's holding company. The bank has 2 branches in Japan, in Tokyo and Osaka. |

See footnote at end of table.

GEOGRAPHIC AREAS IN WHICH U.S. AND FOREIGN BANKS WITH JOINT INVESTMENTS HAVE OVERLAPPING ACTIVITIES*—Continued

| Foreign shareholders | Affiliate | U.S. shareholder |
|---|--|--|
| <p>Schneider, S.A.----- Banque de l'Indochina, Paris [FWR: 255.] An underwriting subsidiary in N.Y., branch in Chicago. Empain Group. Banque de Bruxelles [FWR: 73]. Owns 25 percent of a securities firm with offices in New York and Boston; representative office in New York. Bayerische Vereinsbank, Munich [FWR: 37]. Branch, in New York. Banque Commerciale de Bale, Basle. Bank Mees & Hope, Amsterdam [FWR: 238]. Subsidiary and representative office in New York. Hambros Bank, London [FWR: 189]. La Centrale Finanziaria Generale, Milan. Societe Financiere Desmerais pour l'Industrie et les Commerce, Paris.</p> <p>Banque de l'Union Europeene (BUE), Paris [FWR: 311]. A commercial and investment bank 70 percent owned by Compagnie Financiere de l'Union Europeene (CFUE). It has a financial services affiliate, Union Auxiliaire de Financement, S.A. (UNIMAR), Paris, which it owns jointly with Marine Midland Bank—New York, and an investment affiliate, Interunion Banque, Paris, in which it shares an interest with its shareholders. It also has an interest in the International Bank for Commerce & Industry, Istanbul, in which Marine Midland also has an interest (20 percent). Representative office, New York.</p> <p>Banque de Bruxelles (a shareholder in BUE) [FWR: 73]. Owns 25 percent of a securities firm with offices in New York and Boston; representative office in New York.</p> <p>Bayerische Vereinsbank, Munich (a shareholder in BUE) [FWR: 37]. Branch office in New York.</p> <p>Banque Commerciale de Bale, Basle (a shareholder in BUE).</p> <p>Bank Mees & Hope, Amsterdam (a shareholder in BUE) [FWR: 238]. Subsidiary and representative office in New York.</p> <p>Hambros Bank, London (a shareholder in BUE) [FWR: 189].</p> <p>La Centrale Finanziaria Generale, Milan (a shareholder in BUE).</p> <p>Societe Financiere Desmerais pour l'Industrie et les Commerce, Paris (a shareholder in BUE).</p> <p>Royal Bank of Canada [FWR: 17]. Trust subsidiary and agency in New York; branches in Puerto Rico and U.S. Virgin Islands; representative offices in Los Angeles, Chicago, and Dallas.</p> <p>Yapi ve Kredi Bankasi, Istanbul [FWR: 413].</p> <p>Banque de l'Union Europeene, Paris [FWR: 311].</p> <p>Societe Centrale de Banque.</p> <p>Canadian Imperial Bank of Commerce [FWR: 24]. Banking subsidiary, agency and representative office in</p> | <p>Compagnie Financiere de l'Union Europeene (CFUE), Paris. A holding company which owns 7 percent of Banque de l'Union Europeene (BUE) (see below).</p> <p>Banque de l'Union Europeene (BUE), Paris [FWR: 311]. A commercial and investment bank 70 percent owned by Compagnie Financiere de l'Union Europeene (CFUE) (see above) It has a financial services affiliate, Union Auxiliaire de Financement, S.A. (UNIMAR), Paris, which it owns jointly with Marine Midland Bank—New York, and an investment affiliate, Interunion Banque, Paris, in which it shares an interest with its shareholders. It also has an interest in the International Bank for Commerce & Industry, Istanbul, in which Marine Midland also has an interest (2 percent). Representative office, New York.</p> <p>Interunion-Banque, Paris, an intermediate and long-term bank and investment institution.</p> <p>International Bank for Commerce and Industry (Ulusal Ararsi Endustri ve Ticaret Bankasi A.S.), Istanbul, Turkey. A privately owned commercial bank.</p> <p>Arawak Trust Co. (Cayman) Ltd.----- Arawak Trust Co., Nassau Bahamas.</p> | <p>Marine Midland Bank, New York, N.Y. [FWR: 78]. Branch and 4 affiliates in Paris.</p> <p>Marine Midland Bank, N.Y. [FWR: 78], 20 percent. Branch and 4 affiliates in Paris; branch and merchant banking and nominee subsidiaries in London; representative office and consumer credit and commercial banking affiliates in Frankfurt and Duesseldorf, finance affiliate (in which La Centrale Finanziaria Generale also has an interest) in Milan.</p> <p>Marine Midland Bank—New York [FWR: 78] 20.47 percent, with an additional indirect interest through its holdings in CFUE and BUE. Branch and 4 affiliates in Paris; branch and merchant banking and nominee subsidiaries in London; representative office and consumer credit and commercial banking affiliates in Frankfurt and Duesseldorf, Germany, a finance affiliate (in which La Centrale Finanziaria Generale also has an interest) in Milan.</p> <p>Marine Midland Bank—New York, N.Y. [FWR: 78] Owns 23.9 percent but has an additional interest through its 20 percent holding in Banque de l'Union Europeene (BUE) and interest in CFUE, the holding company for BUE. In addition, the bank has interests in 2 affiliates of BUE in Paris, has 2 other affiliates and a branch in Paris.</p> <p>Brown Brothers Harriman & Co., New York. Branch in Nassau, affiliate in London.</p> |

See footnote at end of table.

GEOGRAPHIC AREAS IN WHICH U.S. AND FOREIGN BANKS WITH JOINT INVESTMENTS HAVE OVERLAPPING ACTIVITIES*—Continued

| Foreign shareholders | Affiliate | U.S. shareholder |
|---|--|---|
| California; representative office in Chicago; trust subsidiary and agency in New York, branches in Portland and Seattle; representative office in Dallas. Kleinwort Benson & Co., London [FWR: 216]. Investment banking subsidiary, New York. Bank of Bermuda. Goldman Sachs & Co., New York. C. Boare & Co. Robert Fleming & Co., Ltd., London, 33.3 percent. An investment banking subsidiary in New York. Compagnie Financiere de Suez et de l'Union Parisienne, Paris, 33.3 percent. Investment banking subsidiary in New York. Fuji Bank Ltd. (Holding company—Fuyo Group of Companies), Tokyo [FWR: 12]. Agency in New York, representative office in Los Angeles. | | Marine Midland Bank—New York, N.Y. [FWR: 78]. Branches in Nassau & London, subsidiary in London. |
| N. M. Rothschild & Sons, London. Ruinione Adriatica di Sicurtà, Milan (insurance company). Long-Term Credit Bank of Japan, Tokyo [FWR: 36]. Representative office in New York. Australia & New Zealand Banking Group Ltd., Melbourne [FWR: 71]. 20 percent. Representative office in New York. Bank of Montreal [FWR: 26]. 20 percent. Banking subsidiary and agency in San Francisco; trust subsidiary and agency in New York, representative offices in Chicago and Houston. Mitsubishi Bank Ltd., Tokyo [FWR: 16]. 20 percent. Banking subsidiary and agency in Los Angeles; agency in New York. Commerzbank A.G., Duesseldorf, 25 percent [FWR: 31]. $\frac{1}{2}$ interest in a New York investment bank, branch and representative office in New York. Hong Kong & Shanghai Bkg Corp., Hong Kong, 25 percent [FWR: 80]. Banking subsidiary and agency in California, agency in New York. Baring Brothers & Co., London [FWR 562]. Credit Suisse, Zurich [FWR: 62]. Representative office in Los Angeles, securities subsidiary and branch in New York. Lloyds Bank International Ltd., London [FWR: 91]. Export finance subsidiary and branch in New York, representative office in Pittsburgh. | Fleming, Suez, Brown Brothers, London, merchant bank. Manufacturers Hanover Ltd., London. A merchant bank. Australian International Finance Corp., Ltd., Melbourne. A merchant bank with capital resources of \$7.5 million. International Commercial Bank Ltd. [FWR 375], London, 1967, \$35 million capital. London Multinational Bank, London, 1970, \$10.4 million capital. Banque Worms, Paris [FWR: 283]----- | Brown Brothers Harriman & Co., New York. 33.3 percent. First National City Bank, New York (holding company—First National City Corp.) [FWR: 2]. Branches in Camp Zama, Osaka, Nagoya, Tokyo, and Yokohama, Japan. Affiliate: Fuyo General Lease Co., Ltd., Tokyo (20 percent). Edge Act subsidiaries in Los Angeles and San Francisco. Manufacturers Hanover Trust Co., New York [FWR: 21]. 2 branches and an export credit subsidiary in London; branch and a leasing affiliate in Tokyo. Irving Trust Co. (Edge Act subsidiary) [FWR: 74]. 20 percent. Representative offices in Melbourne and Tokyo. Crockier National Bank, San Francisco (direct) 20 percent [FWR: 66]. Representative offices in Melbourne and Tokyo; Edge Act subsidiary in New York. First National Bank, Chicago, 25 percent [FWR 40]. Branches and subsidiary in London, branches in Duesseldorf and Frankfurt. Irving Trust Co., New York, 25 percent [FWR 74]. Branch and subsidiary in London, representative office in Hong Kong. Northern Trust Co., Chicago [FWR 141]. Branch and affiliate in London, 2 affiliates in Switzerland. Chemical Bank, New York [FWR 27]. 2 branches in London, 1 in Zurich. Philadelphia National Bank [FWR: 135]. 7.5 percent. Owns 9 percent interest in a merchant bank and has a representative office in London; owns 17 percent interest in a consumer finance company in Plymouth England; Edge Act subsidiary in New York. United California Bank, Los Angeles [FWR: 75]. 12.5 percent. Edge Act. Subsidiary in New York. National Shawmut Bank, Boston [FWR: 288]. 12.5 percent. Manufacturers National Bank, Detroit [FWR: 163]. 12.5 percent. |
| Banco di Napoli [FWR 76]. Agency and representative office in New York. Banque de Neuflyze, Schlumberger, Mollet, Paris [FWR: 514]. Charterhouse Japhet Ltd.----- | Atlantic International Bank, London. Capitalized at \$4.8 million, deposits \$107 million. | |

See footnote at end of table.

GEOGRAPHIC AREAS IN WHICH U.S. AND FOREIGN BANKS WITH JOINT INVESTMENTS HAVE OVERLAPPING ACTIVITIES*—Continued

| Foreign shareholders | Affiliate | U.S. shareholder |
|---|---|--|
| F. Van. Landschot Bankiers, Amsterdam [FWR: 419]. | | First Pennsylvania Bank and Trust Co., Philadelphia [FWR: 106]. 12.5 percent. |
| N. M. Rothschild & Sons London----- | Rothschild Intercontinental Bank, Ltd., London [FWR 422], a \$433 million deposit multinational merchant bank. | National City Bank, Cleveland, 12.5 percent [FWR: 215]. Seattle—First National Bank, Seattle, 12.5 percent [FWR: 133]. |
| Generale Occidentale, Paris----- | Banque Occidentale pour l'Industrie et de Commerce, Paris. A merchant bank with an associate in the Netherlands—De Occidentale Bank NV, Amsterdam—in which the 2 American banks also own 10 percent each. | Union Bank (Los Angeles) [FWR: 114] 10 percent. |
| | Credit Commercial de France, Paris [FWR: 104]. A \$1.3 billion-deposit commercial bank with 234 branches throughout France. Representative office in New York. | Central National Bank of Cleveland [FWR: 262]. 10 percent. Representative office in Paris; Edge Act subsidiary in New York. |
| | | Continental Illinois National Bank & Trust Co., Chicago [FWR: 38]. Branch and venture capital affiliate in Paris; Edge Act subsidiary in New York. |

*Note: FWR denotes Free World Rank of banks by deposits, Dec. 31, 1973. Percentage of investment is given where available. Compiled from various sources, by staff House Banking, Currency and Housing Committee.

PART II
U.S. BANKS ABROAD

INTERNATIONAL BANKING: U.S. BANKS ABROAD

CHAPTER 1

INTRODUCTION

Multinational corporations have received attention and aspects of their activities have become important political issues but interest in international banking has not spread very far beyond the small group who are actually participants in the activity. Only recently has an effort been made to sort out areas where the activities of multinational banks have important effects on public policy in the United States and to determine if those effects are in the public interest.

It is hoped that this study will provide background information for further discussion and analysis of the political and economic effects of international banking. Its principal purpose, however, is to call attention to the impact of overseas activities of U.S. banks on the domestic banking system. The legal and institutional structure of foreign operations, the scale and range of activities and the regulatory and supervisory framework in which they are conducted are discussed in the next four sections of the paper. These are followed by sections covering two of the more important operational areas in international banking—the interbank market and foreign exchange operations. Next are sections describing the activities of the 12 largest multinational banks; some special problem areas involving the so-called “country loans,” term lending and the adequacy of capital and an analysis of the Federal Reserve’s role as lender of last resort to Franklin National Bank.

Several sections of the study comment on policy issues outside the context of banking regulations and there is a detailed discussion of some of the areas in which multinational banks have played a major role in shaping economic and monetary events. Since banks do have a key role in determining economic conditions, an outline of the development of international banking in the context of monetary and economic events on which it has had a determining influence will be useful as an overview for the material which follows.

The recent development of truly international banking by U.S. banks was preceded by foreign lending by the larger U.S. banks primarily from their home offices using domestic funds. This activity became an important part of their business in the early 1960’s. Because their activities contributed to deficits in the U.S. balance of payments, various controls on the extension of foreign credits were imposed, including in 1965 a ceiling on additional foreign lending by U.S. banks. In response to these controls, banks with established foreign business moved overseas, and funded their foreign loans with foreign deposits. The larger banks established branches in London and other major international financial centers.¹ Some banks invested

¹ Three banks—First National City, Bank of America, N.T. & S.A., and Chase Manhattan Bank—already had worldwide networks of branches.

in foreign banks as a way of entering a given banking market and in time, all of the larger banks acquired an interest in a merchant bank, establishing wholly owned subsidiaries or investing with other U.S. or foreign banks in joint ventures.

In the late 1960's the Federal Reserve Board allowed banks to open "shell" branches in the Bahamas. In reality a "shell" branch is a euphemism for Eurocurrency banking operations conducted at the home office. The requirement was that, like branches in London and elsewhere, virtually all loans by the shell branches had to be foreign loans and liabilities had to be foreign liabilities. This would allow international banking to be done at home but without violating capital controls. It also opened up the market to a larger number of banks since the cost of getting a license in Nassau was not great nor was the expense of hiring someone to maintain a set of books which were actually duplicates of records kept at the home office.

The story of the development of the Eurodollar market is a familiar one. It began because the U.S.S.R. had dollar balances acquired during World War II which it did not wish to deposit in U.S. banks for fear the funds would be confiscated to satisfy unpaid loans from the United States. British banks accepted the funds and re-lent them. There was a demand for dollar loans and other countries began to deposit dollar reserves, acquired as a result of U.S. balance of payments deficits, with banks in London. U.S. banks with branches in London attracted a share of these deposits and, after the Voluntary Foreign Credit Restraint Program in 1965 constrained foreign lending from domestic offices, they began to compete vigorously for Eurodollar deposits to continue and expand their foreign business.

In 1966, tight money in the United States made it profitable for the foreign branches to lend their Eurodollar deposits to their home offices for relending to domestic customers. Higher interest rates in the United States after 1966 encouraged foreign branches to continue to lend about one-fourth of their total resources to their parent banks over the next several years. It also encouraged more banks to establish branches in London and in 1969 banks responded to the Federal Reserve's tight money and high interest rate policies by importing about 14 billion Eurodollars for domestic lending.

These funds were loaned by the large international banks to their large corporate customers who could afford the cost. As a result, money remained tight and interest rates high as the Federal Reserve prolonged its efforts to cool the economy. The credit crunch and liquidity problems experienced by other sectors of the economy—especially housing, and state and municipal governments—were quite serious. The Federal Reserve responded by imposing a 10% marginal reserve requirement on additional Eurodollar borrowings by U.S. banks from their foreign branches to discourage a similar inflow of funds in the future. And, recognizing the competitive advantages which the international banks had enjoyed, the Board also agreed to the establishment of the shell branches so that more banks could compete in international markets.

As loan demand and interest rates declined during 1970, U.S. banks repaid a substantial portion of their borrowings to their foreign branches. Without the domestic market as an outlet for lending, the foreign branches had to find new uses for funds.² They increased

² The Federal Reserve Board had also discouraged loans to U.S. residents other than the parent banks.

their lending to foreign subsidiaries of U.S. multinational corporations, but still had an excess of funds for lending. The availability of dollar loans and lower interest rates on both Eurodollar funds and in the United States as well as the domestic inflation and recession encouraged expectations that the dollar would be devalued. Speculators borrowed dollars and converted them into assets in other currencies. Central banks in several European countries bought the dollars because they feared the effect of upward revaluation of their currencies on their exports. In so doing, they added substantially to their own money supplies and to their domestic inflation. In the end, the disadvantages of preventing a devaluation of the dollar seemed greater than the advantages and the dollar was devalued.

In the aftermath of these events, a number of European countries imposed exchange controls on inflows or outflows of funds and this served as a brake on expansion of foreign branch activities in 1972. The branches found it difficult to lend to prime customers—subsidiaries of U.S. multinational corporations as well as other multinational firms in developed countries—because of the exchange controls and began to lend to less developed countries and to public and quasi-public institutions in Italy and the United Kingdom—the two developed countries coping with chronic capital outflows.

In 1972 as in 1970, expectations developed that the dollar again would be devalued and speculation again created pressures that made additional devaluation a certainty. But, because of capital controls in European countries, the mechanism this time was somewhat different. The foreign branches did not lend dollars to speculators to be exchanged for foreign currencies by central banks. Foreign branches of U.S. banks borrowed foreign currencies in the international interbank market which was not covered by exchange controls and reloaned the funds to speculators who could not acquire foreign currency assets directly from domestic banks in European countries. They also swapped balances for customers unable to get funds out of domestic markets and for those unable to get funds in by selling deposits to the domestic interbank market or acquiring deposits from domestic banks. But the effect was the same as in 1971. European banks ended up with dollars which they swapped at their central banks for their own currencies.

After the dollar was devalued and floating exchange rates adopted as a result of continuing speculation, 7 European countries put reserve requirements on external liabilities of banks operating in their countries to curb speculative activity through domestic and international interbank markets.³ This had the effect of greatly reducing the business of branches of U.S. banks in several of those countries and forcing them to rely on the domestic interbank market for funds. Since that time, there has been very little increase in the assets/liabilities of American branches in continental Europe.⁴

³ These countries were Germany, Switzerland, France, the Netherlands, Belgium, Luxembourg and Spain.

⁴ See Table 5, Chapter 2.

As discussed in Chapter 11, these restrictions were relaxed in January and February 1974 but reintroduced by Switzerland in November of that year. Despite the relaxation, the German Bundesbank and Bank of France still retain discretionary controls in the form of requirements that the use of external funds by domestic residents be approved.

There was a virtual explosion of growth in U.S. bank activities overseas in 1973. Assets of branches grew 56% in that year while the number of U.S. banks' investments in foreign banks, finance, and leasing affiliates rose to 1670 companies in 102 countries from 416 companies in 1974 countries in 1971. Some banks were clearly over-extended and events in the following year—problems in financing oil deficits and of recycling OPEC deposits, the after effects of a collapse in property values in Great Britain and the crisis of confidence caused by the failures of Franklin National Bank and Herstatt—hastened a wind-down in international activity and slowed the growth rate of branch assets to 25% for the year.

There was very little growth in international banking activities in 1975 due to the world-wide recession and to the fact that dollar funds used by foreign countries to make oil payments to OPEC countries were largely drawn from the Eurodollar market but a lesser amount was returned to that market. OPEC countries have deposited a substantial amount in the Eurodollar market, but they have also invested heavily in domestic markets, including the United States. Given the shrinkage in foreign funds available for new lending, the foreign branches of U.S. banks relied heavily on their parent banks to supply funds to expand their business in 1975. Branches borrowed \$20 billion from U.S. residents in 1975, \$12 billion of it from their U.S. parents. This compares with \$5.8 billion borrowed from parent banks in 1974 and \$1.6 billion in 1973.

Since loan demand was slow in the United States in 1975, it could be argued that the actions of U.S. banks in supplying domestic funds to their overseas branches for foreign lending did no harm to the U.S. economy and positively benefited other countries struggling with the Charybdis of a rise in oil prices and the Cerberus of recession. This might be true but the argument would have more weight if we knew to whom and for what those foreign loans were made. There is also evidence for the argument that, in its efforts to attract funds back into the country to counteract outflows to the branches and to improve the exchange rate of the dollar, the Federal Reserve kept interest rates at levels which were sufficiently high to contribute to the lag in loan demand.

The 1975 outflows to the branches are described in other sections,⁵ as are other issues noted here. This outline of events is intended as a reference for the more detailed discussions which follow. It is also intended to suggest the growing importance of international banking and its impact on public policy. While foreign activities of U.S. banks have no doubt aided the development of world trade, these activities have also posed important problems for domestic monetary policy and for the stability of the U.S. banking system. These problems will be discussed in greater detail in the following sections.

⁵ See chapters 2 and 11.

TABLE 1

| Date | Total all currencies | Increase | Percent increase | Payable in U.S. dollars | Increase | Percent increase | Payable in other currencies | Increase | Percent increase |
|---|-------------------------|----------|---------------------|-------------------------------|----------|---------------------|-----------------------------------|----------|---------------------|
| ASSETS OF FOREIGN BRANCHES OF U.S. BANKS | | | | | | | | | |
| December 1970 | 47,363 | 13,971 | 29 | 34,619 | 5,563 | 16 | 12,744 | 8,408 | 65 |
| December 1971 | 61,334 | 16,868 | 28 | 40,182 | 12,454 | 31 | 21,152 | 4,414 | 21 |
| December 1972 | 78,202 | 16,868 | 28 | 52,636 | 26,209 | 51 | 25,566 | 16,855 | 66 |
| December 1973 | 121,866 | 43,664 | 56 | 79,445 | 26,448 | 33 | 42,421 | 3,514 | 08 |
| December 1974 | 151,828 | 29,962 | 20 | 105,893 | 26,271 | 25 | 45,935 | -2,221 | -5 |
| December 1975 | 175,878 | 24,050 | 16 | 132,164 | | | 43,714 | | |
| LIABILITIES OF FOREIGN BRANCHES OF U.S. BANKS | | | | | | | | | |
| December 1970 | | | | 36,084 | | | 11,279 | 7,965 | 71 |
| December 1971 | | | | 42,090 | 6,006 | 17 | 19,244 | 4,130 | 21 |
| December 1972 | | | | 54,828 | 12,738 | 30 | 23,374 | 18,118 | 78 |
| December 1973 | | | | 80,374 | 25,546 | 47 | 41,492 | 2,523 | 6 |
| December 1974 | | | | 107,813 | 27,439 | 34 | 44,015 | -3,062 | -7 |
| December 1975 | | | | 134,925 | 27,112 | 25 | 40,953 | | |

Source: Federal Reserve Bulletin; compiled by committee staff.

CHAPTER 2

OVERSEAS BRANCHES OF U.S. BANKS

The current scale of U.S. banks' involvement in overseas activities is without historical precedent. The assets of foreign branches alone are 15 percent of the total assets of all insured banks in the United States, up from half that amount at year-end 1970. The enormous growth in funds held in foreign branches is graphically illustrated in Chart I. Branch assets grew 30 percent a year between 1970-1972 and 56% in 1973. Since then the rate of growth has declined, dropping to 25% in 1974 and 15% in 1975. Total assets are now \$176 billion and represent a substantial contingent liability on the resources of the domestic banking system.

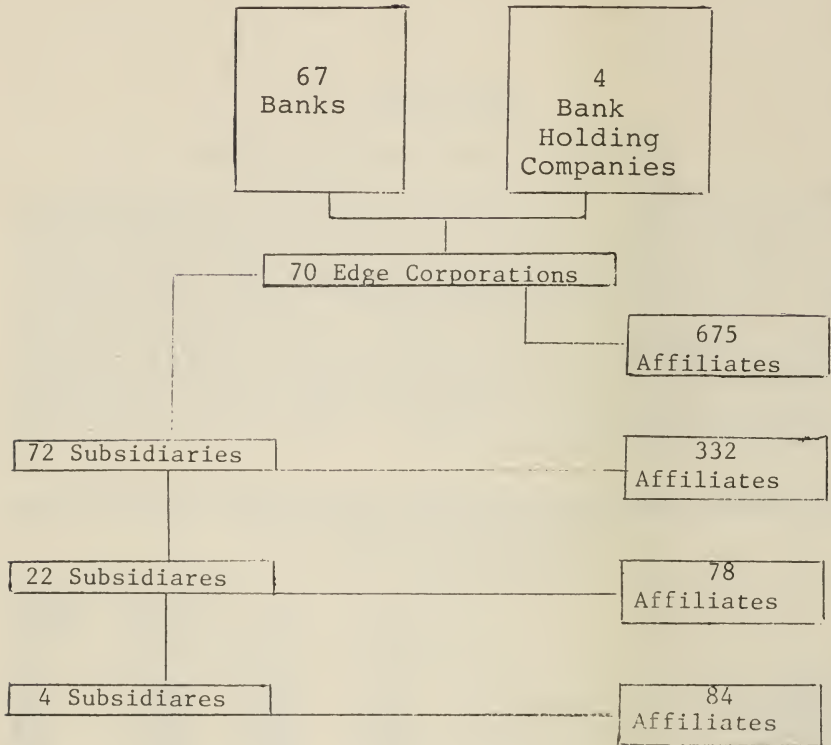
TABLE 1.—COMPARISON OF ASSETS/LIABILITIES OF FOREIGN BRANCHES AND DOMESTIC OFFICES OF ALL INSURED COMMERCIAL BANKS IN THE UNITED STATES

[Dollar amounts in billions]

| | Foreign branches | Domestic offices | Total domestic and foreign | Foreign as percent of total |
|--------------------|---------------------|---------------------|----------------------------------|-----------------------------------|
| December 1970..... | \$47.4 | \$572.7 | \$620.1 | 7.6 |
| December 1971..... | 61.3 | 635.8 | 697.1 | 8.8 |
| December 1972..... | 80.0 | 732.5 | 812.5 | 9.8 |
| December 1973..... | 121.8 | 835.2 | 957.0 | 12.7 |
| December 1974..... | 151.8 | 919.4 | 1,071.2 | 14.2 |
| June 1975..... | 162.2 | 898.1 | 1,060.3 | 15.3 |

Source: Federal Reserve Bulletin.

EDGE CORPORATION
LINKS TO
SUBSIDIARIES AND AFFILIATES, Dec. 31, 1971



There has been a substantial growth in the number of U.S. banks with foreign branches and the number of countries in which branches of U.S. banks are located. As shown in Table 2, only 11 banks had branches overseas in 1965. A decade later, 125 U.S. banks had 732 branches in 59 foreign countries and in various overseas areas of the United States. Of these 125 banks, 80 have only a single "shell" branch nominally operating in either Nassau or the Cayman Islands and at year-end 1974, their aggregate assets were \$4.1 billion or 2.7% of total foreign branch assets. Another 25 banks have branches other than the "shell" branches but have not established branch networks. Together they have 49 branches, with aggregate assets of \$8.6 billion, 5.7% of total foreign branch assets. Many have branches in both London and the Caribbean. A few have full-service branches elsewhere.

TABLE 2.—INTERNATIONAL OPERATIONS OF U.S. BANKS: SELECTED INDICATORS, 1960-75

[Monetary magnitudes are in billions of dollars]

| Category | 1960 | 1964 | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 | 1971 | 1972 | 1973 | 1974 | 1975 |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|-----------|
| I. U.S. offices:¹ | | | | | | | | | | | | | |
| Bank credit to foreigners ² | | | | | | | | | | | | | |
| Foreign deposits ^{2,3} (Other than due to foreign branches) | \$4.2 | \$9.4 | \$9.7 | \$9.6 | \$9.8 | \$9.2 | \$9.3 | \$9.7 | \$12.1 | \$13.4 | \$17.2 | \$29.0 | \$30.5 |
| Due to foreign branches ⁴ | 9.1 | 13.4 | 13.6 | 12.6 | 14.4 | 14.7 | 16.5 | 16.5 | 17.1 | 17.4 | 21.8 | 24.2 | 23.0 |
| | | 1.2 | 1.3 | 4.0 | 4.2 | 6.0 | 12.8 | 7.7 | 0.9 | 1.4 | 2.5 | 4.5 | J 2.8 |
| II. Overseas branches of banks:⁵ | | | | | | | | | | | | | |
| Number of banks with overseas branches | 8 | 11 | 13 | 13 | 15 | 26 | 53 | 79 | 91 | 108 | 125 | 125 | NA |
| Number of overseas branches | 131 | 181 | 211 | 244 | 295 | 375 | 459 | 536 | 583 | 627 | 699 | 732 | NA |
| Assets of overseas branches ⁶ | \$3.5 | \$6.9 | \$9.1 | \$12.4 | \$15.7 | \$23.0 | \$41.1 | \$52.6 | \$67.1 | \$77.4 | \$118.0 | \$151.9 | J \$160.2 |
| III. Edge and agreement corporations: | | | | | | | | | | | | | |
| Number | 15 | 38 | 42 | 49 | 53 | 63 | 71 | 77 | 85 | 92 | 104 | 114 | NA |
| Assets | NA | \$0.9 | \$1.0 | \$1.4 | \$1.5 | \$2.5 | \$3.5 | \$4.6 | \$5.5 | \$6.0 | \$6.9 | NA | NA |
| Memorandum: | | | | | | | | | | | | | |
| All commercial banks in United States: | | | | | | | | | | | | | |
| Total assets | \$255.7 | \$343.9 | \$374.1 | \$401.4 | \$448.9 | \$498.1 | \$527.6 | \$576.2 | \$640.3 | \$732.5 | \$827.1 | \$906.3 | S \$998.3 |
| Total deposits | \$228.4 | \$305.1 | \$330.3 | \$351.4 | \$394.1 | \$432.7 | \$434.1 | \$480.9 | \$537.9 | \$612.8 | \$677.4 | \$741.7 | \$721.0 |

¹ All data for U.S. offices are on a balance of payments basis.² Bank credit to foreigners and foreign deposits relate to all commercial banks reporting on the Treasury foreign exchange forms, and include credits and deposits of branches and agencies of foreign banks as well as U.S. banks. Bank credit includes short- and long-term loans and acceptance credits denominated in dollars; for 1960, some other short- and long-term claims are also included. Data for 1972 through 1974 do not include claims on U.S. banks or their foreign branches or claims of U.S. agencies and branches of foreign banks on their head offices.³ Foreign deposits include demand and time deposits of 1-year or less maturity, and beginning in 1964, include negotiable certificates of deposit issued to foreigners and international institutions.⁴ Due to branches refers to the gross liabilities due to foreign branches of large U.S. weekly reporting banks.⁵ Overseas branches include branches of member banks in U.S. possessions and territories as well as in foreign countries.⁶ Branch assets include interbranch balances.

Note: N.A. Not available. Data are for end of year through 1973. Data for 1975 are for August (except where footnoted J—end of July and S—end of September).

Sources: Treasury forms B-2 and B-3; Federal Reserve Board.

TABLE 3.—OVERSEAS BRANCHES OF U.S. MEMBER BANKS, 1965-75 (AS OF JAN. 1)

| Country of location | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 | 1971 | 1972 | 1973 | 1974 | 1975 |
|---|------|------|------|------|------|------|------|------|------|------|------|
| Belgium-Luxembourg..... | 2 | 4 | 6 | 8 | 9 | 11 | 11 | 8 | 8 | 15 | 15 |
| France..... | 4 | 4 | 4 | 6 | 7 | 11 | 12 | 15 | 17 | 15 | 17 |
| Germany..... | 3 | 6 | 8 | 9 | 14 | 17 | 21 | 22 | 27 | 30 | 30 |
| Greece..... | 1 | 1 | 1 | 2 | 5 | 8 | 9 | 13 | 14 | 16 | 18 |
| Italy..... | 1 | 1 | 1 | 2 | 2 | 3 | 4 | 6 | 7 | 8 | 10 |
| The Netherlands..... | 3 | 3 | 3 | 3 | 5 | 7 | 7 | 7 | 6 | 6 | 6 |
| Switzerland..... | 1 | 1 | 2 | 3 | 3 | 6 | 7 | 8 | 8 | 9 | 9 |
| United Kingdom..... | 17 | 21 | 21 | 24 | 32 | 37 | 41 | 45 | 49 | 52 | 55 |
| Total Europe ¹ | 32 | 43 | 48 | 59 | 80 | 103 | 116 | 128 | 142 | 157 | 167 |
| Bahamas..... | 2 | 3 | 3 | 3 | 8 | 32 | 60 | 73 | 94 | 91 | 80 |
| Cayman Islands..... | | | | | | | | | 2 | 32 | 44 |
| Total Caribbean ² | 5 | 9 | 9 | 10 | 22 | 53 | 89 | 105 | 133 | 166 | 166 |
| Argentina..... | 15 | 17 | 17 | 25 | 33 | 38 | 38 | 38 | 38 | 38 | 37 |
| Brazil..... | 15 | 15 | 15 | 15 | 15 | 15 | 16 | 19 | 21 | 21 | 19 |
| Colombia..... | 5 | 6 | 6 | 8 | 17 | 23 | 26 | 28 | 28 | 32 | 36 |
| Panama..... | 10 | 12 | 15 | 19 | 21 | 26 | 29 | 29 | 32 | 33 | 33 |
| Total Latin America ³ | 78 | 88 | 102 | 133 | 177 | 235 | 281 | 296 | 322 | 356 | 363 |
| China, Republic of Taiwan..... | | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 3 | 5 | 7 |
| Hong Kong..... | 6 | 6 | 8 | 10 | 12 | 13 | 13 | 15 | 19 | 23 | 24 |
| India..... | 5 | 6 | 8 | 8 | 11 | 11 | 11 | 11 | 11 | 11 | 11 |
| Indonesia..... | | | | | 4 | 6 | 6 | 6 | 6 | 6 | 6 |
| Japan..... | 13 | 14 | 14 | 14 | 14 | 15 | 15 | 17 | 21 | 25 | 31 |
| Lebanon..... | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Persian Gulf ⁴ | 2 | 2 | 3 | 3 | 3 | 3 | 8 | 11 | 10 | 10 | 11 |
| Singapore..... | | 8 | 8 | 8 | 8 | 9 | 11 | 11 | 11 | 14 | 18 |
| Total Asia ⁵ | 45 | 55 | 63 | 69 | 78 | 83 | 90 | 97 | 109 | 122 | 138 |
| Total Africa ⁶ | 3 | 2 | 2 | 3 | 3 | 1 | 2 | 2 | 2 | 2 | 5 |
| Overseas areas of United States..... | 23 | 23 | 29 | 31 | 35 | 37 | 40 | 44 | 47 | 52 | 53 |
| Grand total..... | 180 | 211 | 244 | 295 | 373 | 460 | 532 | 577 | 627 | 699 | 732 |
| U.S. member banks with overseas branches..... | 11 | 13 | 13 | 15 | 26 | 53 | 79 | 91 | 107 | 125 | 125 |

¹ Also includes Austria, Ireland, Monaco, and Romania.² Also includes Barbados, Haiti, Jamaica, Netherlands Antilles, Trinidad and Tobago, British Virgin Islands, and other West Indies.³ Also includes Bolivia, Chile,* Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Honduras, Mexico, Paraguay, Peru, Uruguay, and Venezuela.⁴ Includes Bahrain, Qatar, Saudi Arabia, and United Arab Emirates.⁵ Also includes Brunei, Israel, Korea, Malaysia, Pakistan, Philippines, Thailand, and Vietnam.⁶ Includes Liberia, Kenya, Mauritius, and Nigeria.*

*No resident U.S. branches as of Jan. 1, 1975.

Source: Federal Reserve Bank of Chicago.

As these figures indicate, foreign branch activity is dominated by 20 large banks which have over 82% of the total number of branches and almost 92% of total branch assets. Actually, the bulk of foreign activity is conducted by an even narrower group of banks—the 12 who have had substantial overseas operations since 1966. The range and size of activities of these banks is discussed below. However, the importance of the 20 multinational banks to the U.S. banking system and the importance of their foreign branch operations to these banks should be noted here. These banks have 30% of total domestic assets of all U.S. banks. As Table 4 indicates, they have \$139 billion of assets in their foreign branches. Their domestic and foreign branch assets are approximately \$400 billion or 37% of the domestic and foreign branch assets of all U.S. banks and the average amount of assets held overseas by these 20 banks is 35% of their total assets. The operations of their foreign branches are an important segment of the U.S. banking system as a whole.

The complexity of this structure is evident as are the problems it poses in terms of examination and supervision. Moreover, it is difficult to assess the impact of these investments on the U.S. banking system.

or banking systems in other countries. The only available financial data in this area are confined to cost of primary investments and assets of subsidiaries.

TABLE 4.—ASSETS OF FOREIGN BRANCHES OF U.S. BANKS BY TYPE OF BANK

(Dec. 31, 1974)

| Type of bank | Branch Offices | | Branch Assets | |
|---|----------------|------------------|-------------------|------------------|
| | Number | Percent of total | Amount (millions) | Percent of total |
| 80 banks with only "shell" branches ¹ | 80 | 10.9 | \$4, 139 | 2.7 |
| 25 "nonnetwork" banks with full service foreign branches..... | 49 | 6.7 | 8, 627 | 5.7 |
| 20 banks with multinational branch networks..... | 603 | 82.4 | 139, 139 | 91.6 |
| Total all banks..... | 732 | 100.0 | 151, 905 | 100.0 |

¹ These branches are located in the Bahamas or the Cayman Islands.

Source: Federal Reserve Board; compiled by committee staff.

THE DEVELOPMENT OF BRANCH OPERATIONS

During the fifty-year period between the establishment of the national banking system in 1863 and the Federal Reserve System in 1913, American banking was largely isolated from developments in international financial markets in London and on the European continent. National banks were prohibited both from establishing offices overseas and from creating acceptances associated with financing foreign trade. As a result, only a limited number of private and state chartered banks were actively engaged in international operations.

In recognition of the fact that the United States had shifted from a debtor to a creditor nation, the Federal Reserve Act provided for the creation of acceptances and authorized the establishment of overseas branches by national banks with capital and surplus of \$1 million. As Section 25 makes clear, the intent was to provide facilities "for the furtherance of the foreign commerce of the United States." The results were immediate and dramatic. By 1920, state and national banks together had established 100 direct foreign branches.¹ Due to the economic crisis of 1920-21 and lack of experienced management, branch operations receded from this peak and the number of branches had dropped to 72 in 1926. The few banks which maintained branches during the 1930's and the war years, were able to resume and expand their foreign operations under the favorable conditions which developed during the 1950's. By 1955, 7 U.S. banks had a total of 115 foreign branches with assets of \$2 billion.

Between 1955 and 1966, the number of overseas branches more than doubled with a 6-fold increase in their assets. There were, however, only 12 banks with branches in 1966 and of the 244 branches then operating, 210 were branches of 3 banks—First National City Bank, Bank of America and Chase Manhattan Bank. The branches of 9 other large U.S. banks accounted for only 13 percent of the total number. Moreover, 5 of these banks had branches only in London.

The expansion of the branch networks of the 3 largest banks demonstrated that international operations afforded a remarkable opportunity for growth and that larger banks were in a better position to

¹ In 1913 there were only 6 direct foreign branches of 4 U.S. banks.

take advantage of this opportunity. Unhampered by geographical restrictions which acted to moderate the size of banks operating within the United States, they were able to create a world-wide network of branches and to demonstrate that the potential for growth for banks with overseas branches was much greater than for banks without such facilities. But restrictions on their domestic growth and domination of U.S. credit markets were also loosened as the larger U.S. banks became more active overseas. Banks with London branches responded to tight money conditions in the United States in 1966 by importing funds from their branches to maintain their volume of domestic loans. This was an obvious competitive advantage and a role for the foreign branches which was not consistent with their statutory obligation to further U.S. trade.

The extent to which the branches functioned to supply funds to their home offices in the 1960's is indicated in Table 2. Branch claims on their home offices rose to one-third of their total assets in 1966. From 1965 through 1968 the foreign branches continued to supply about one-fourth of their funds to their parent banks' U.S. offices. Recognition of the advantages of development of this source of funds resulted in a significant increase in the number of banks with foreign branches in 1968. The following year—again in a period of monetary stringency—the number of banks with branches jumped from 26 to 53 and the foreign branches again provided one-third of their funds to their U.S. parent banks.

The percentage of total branch assets held in London increased to 60 percent in 1969 as compared with 52 percent in 1966, and Nassau had gained a 7 percent share of total assets over the 3 year period. This largely reflects the choice of location of the newcomer banks. Aside from the fact that it is the center of the Eurocurrency market, the attractiveness of London was enhanced by the fact that banks dealing in non-sterling deposits were not subject to reserve requirements or interest rate limitations. Nassau had similar advantages as well as favorable tax laws, and the bulk of new banks forming branches in 1969 did so in Nassau.

The inflow of funds to U.S. banks from their foreign branches in 1969 was \$13 billion. The number of banks able to evade the effects of domestic monetary stringency, the larger volume of funds for the purpose, the dislocation of credit markets as funds were funneled to larger corporate borrowers and the resulting distortion of the economic effects of monetary policy were cause for alarm. In response, the Federal Reserve Board imposed a reserve requirement on excess borrowings by the home office from overseas branches. The reserve requirement made excess borrowings less profitable and substantial repayments were made both in 1970 and 1971.

When their role as source of funds for the parent banks ended, the foreign branches solicited new customers for their funds. Their orientation became more international after 1970. There was an increase in the volume of loans and liabilities to foreigners and in the proportion payable in currencies other than the dollar. The volume of branch activity related to currency speculation also increased as discussed below.²

² See "Foreign Branch Activities of U.S. Banks and International Monetary Events."

ACTIVITIES OF U.S. BANK BRANCHES IN EUROCURRENCY MARKETS

International financial markets are by no means a new phenomenon, but the volume of external currencies used and the ways in which institutions operate in these markets are new phenomena. Bank of England and BIS statistics indicate that Eurocurrency assets are estimated at \$300 billion with the dollar component \$255 billion. Assets of U.S. bank branches payable in dollars were \$132.2 billion at year-end 1975 and those payable in other currencies were \$43.7 billion. The steady demand for dollars throughout the 1960's made it the key currency in the market for foreign currency deposits. Following the 1973 devaluation and the inauguration of floating exchange rates, the demand for Eurodollar assets fell. The result was a so-called dollar "overhang" which disappeared the following year with the increase in the price of oil and the insistence of OPEC countries that they be paid in dollars. Since then, the demand for Eurodollar assets rises and falls in response to changes in interest and exchange rates.

The way in which Eurodollar credits are extended is described in one of the earlier but still applicable discussions of Eurodollar lending activities.

The Euro-dollar market is largely a wholesale market characterized by a high proportion of interbank activity. A typical Euro-dollar transaction involves a round amount ranging from \$1 million to \$5 million placed for a standard maturity running from call to one year, although maturities of up to 5 years can be negotiated. Since 1966, Euro-dollar CD's have also been available. Because these transactions usually involve prime customers, Euro-dollar interbank loans are made in a matter of minutes or hours with practically no questions asked—even on loans of over 6 months. The actual transfers are made by telephone or teletype with a letter of confirmation as the only customary documentation.³

Like all banks, Eurocurrency banks hold reserves. But, for the most part, they are exempt from mandatory reserves and this is very advantageous both in terms of profitability and flexibility.

Reserve requirements are not imposed on liabilities of branches in the United Kingdom, Luxembourg, Panama, the Bahamas, Cayman Islands and Singapore. Branches in these locations hold \$124.3 billion of liabilities or 75% of total foreign branch liabilities. But in other countries as well, reserve requirements are not imposed on liabilities derived from other banks (domestic or international) or liabilities denominated in external currencies. The amount of domestic nonbank deposits which the branches attract is insignificant as a percentage of their total liabilities. Thus, the assertion by the Federal Reserve Board Governor Robert C. Holland that Eurocurrency operations constitute "an unregulated and reserve-free market in bank services" is quite accurate, and the result is a reduction in control by monetary authorities over the level of Eurocurrency activity.

Competition with domestic sources of credit and with other institutions in the Eurodollar market resulted in an unusually low margin of profit for foreign branches. However, the size of the credits and the fact that until recently they were virtually risk free lowered costs in relation to the banks' overall business. Furthermore, fees on other business generated by branch activities—including letters of credit, loan commitments, foreign exchange transactions and loan syndication

³ Jane Sneddon Little, "The Eurodollar Market: Its Nature and Impact," *New England Economic Review*, Federal Reserve Bank of Boston, May/June, 1969.

management fees—made overseas operations highly profitable. But profitability was not the only justification for Eurocurrency activity. For some banks it reflected a necessary defensive strategy for keeping and expanding domestic business relationships. After 1972, a decline in loan demand by prime borrowers raised some questions regarding the wisdom of continuing—and even shaving further—the low margin of profit, especially since the competitive squeeze led to a relaxation of one of the few safeguards the Eurocurrency banks had maintained—a limitation on the amount loaned to any one customer or any one country.⁴

Very little information is available on the business of nonbank borrowers in Eurocurrency markets. The information is available to bank examiners but, as of year-end 1975, it was not reported on a regular basis as are data on the domestic loans of large banks. This important gap reveals the weakness of the data on international banking for economic analysis. It is difficult to determine from generalized, aggregate information on branch activity whether these offices are engaged in trade financing, financing overseas offices of U.S. based multinational corporations, making development loans to developing nations, etc.

Foreign branches of U.S. banks report the location of branches where loans are made but not the country of origin of the borrower, except in the case of U.S. nationals. Borrowers and depositors are reported under the categories of nonbank, governments and official institutions, the parent bank network and other banks. It is assumed that, before 1972, the bulk of lending to nonbank borrowers was to overseas subsidiaries of U.S. corporations and to other multinational corporations. Fragmentary information from various official and non-official sources indicates that, while governments had not been major borrowers before 1972, British local authorities and nationalized industries became important borrowers in that year. Sizable long-term credits to less developed countries were also made and, even at the time, were considered somewhat risky.⁵ Borrowing for domestic financing by Japanese and Italian banks—as well as by the U.S. parent banks in 1969—were also significant uses of funds. In 1974 and 1975, a substantial volume of loans was made to develop countries to finance oil imports, together with additional loans to less developed countries for the same purpose.

Among the more important borrowers of foreign branch funds are other Eurocurrency banks, both U.S. and foreign.⁶ The importance of the interbank market for these banks is due to the difficulty of obtaining a stable, nonbank deposit base. As a result, some banks choose to act solely as intermediaries, presumably minimizing risk by lending only to other Eurocurrency banks rather than to nonbank borrowers, although, as noted, this is frequently a channel for lending to governments. Before 1974, U.S. branches in London received a substantial volume of interbank deposits without the effort of solicitation. Branches in other countries have had more difficulty in

⁴ Andrew F. Brimmer, "American International Banking," April 2, 1973; *London Banker*, November 1972, p. 1435.

⁵ The tightening of exchange controls in 1972 by most industrial countries was undoubtedly responsible for the loss of corporate borrowers.

⁶ Brimmer, "American International Banking;" "Uneasy Money," article by Charles N. Stabler, *Wall Street Journal*, May 21, 1973.

⁷ The term "Eurocurrency banks" means the foreign branches of U.S. banks, their overseas banking subsidiaries and external branches and subsidiaries of foreign banks.

obtaining funds from other banks and have depended on the parent's London branch to provide a large share of their resources.

Interbank transactions make possible the sizable credits extended in the Eurodollar market, since a number of banks may be participants either indirectly as depositors or directly as participants in a loan managed by a lead bank, or may participate in both ways. Because of the interbank network, Eurocurrency banks have risked extending the spread between the average maturity of loans and of liabilities and have ignored other traditional ways of bolstering liquidity, such as maintaining portfolios of readily marketable securities. Presumably, these liabilities can be purchased as needed and rolled over or replaced with ease. Meanwhile, these banks, whether subsidiaries or branches, have the cushion of the parent bank's domestic resources to fall back on, and the parent bank can call on its national central bank for resources as well.

But these assumptions no longer seem invulnerable to question. Analyses of specific problems and practices are presented in other sections of this paper; but, in general, the major disadvantages in the structure of international banking relate to the fact that long-term credits which require constant replenishing with short-term funds do present problems, even when the rate on the loan varies with the cost. The drop in the interbank market in 1974 demonstrated the vulnerability of banks which engage in such practices and tested the ability of the parent banks to provide support. The crisis of that summer is discussed in detail elsewhere.⁷ The crisis was contained but the banking system is perhaps less strong as a result of the experience.

TABLE 5.—PERCENTAGE BREAKDOWN OF FINANCIAL ASSETS AND LIABILITIES OF FOREIGN BRANCHES OF U.S. BANKS BY LOCATION AND NATURE OF THE ENTITIES OWING AND OWED

| | Dec. 31, 1972 | | Sept. 30, 1973 | | Sept. 30, 1974 | | Sept. 30, 1975 | |
|---------------------------------------|----------------|---------------------|----------------|---------------------|----------------|---------------------|----------------|---------------------|
| | Assets (on) | Liabilities (to) | Assets (on) | Liabilities (to) | Assets (on) | Liabilities (to) | Assets (on) | Liabilities (to) |
| Claims on (and to) U.S. entities..... | 4.0 | 4.2 | 4.4 | 4.4 | 4.2 | 6.8 | 3.95 | 11.36 |
| Parent banks..... | 1.5 | 1.0 | 1.7 | 1.1 | 2.5 | 3.4 | 1.96 | 6.49 |
| Others..... | 2.5 | 3.2 | 2.7 | 3.3 | 1.8 | 3.3 | 1.99 | 4.87 |
| Claims on (and to) foreigners.. | 92.1 | 91.6 | 91.3 | 91.0 | 91.6 | 88.7 | 92.23 | 84.90 |
| Other branches of parent bank..... | 15.8 | 14.9 | 15.5 | 15.4 | 17.8 | 17.8 | 18.97 | 18.26 |
| Other banks..... | 45.8 | 53.9 | 44.6 | 53.1 | 41.5 | 42.4 | 39.14 | 42.52 |
| Official Institutions..... | 2.1 | 8.3 | 2.0 | 7.9 | 2.5 | 11.8 | 2.92 | 11.88 |
| Non-bank foreigners.... | 28.4 | 14.5 | 29.2 | 14.6 | 29.7 | 14.3 | 31.18 | 12.21 |
| Miscellaneous claims..... | 3.9 | 4.2 | 4.3 | 4.6 | 4.2 | 4.6 | 3.81 | 3.73 |
| Total..... | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.00 | 100.00 |

Source: Federal Reserve Bulletin.

⁷ See "The Role of the Federal Reserve as Lender of Last Resort."

The response of the Comptroller of the Currency to the FINE Questionnaire expresses the view that the international component of the banking systems was strengthened by the events of 1974 in that it emerged with better control by senior management over international operations.

TABLE 5a.—SOURCES AND USES OF FUNDS OF FOREIGN BRANCHES OF U.S. BANKS
[Millions of dollars]

| Sources and uses of funds | All foreign branches, Sept. 30, 1969 | | | All foreign branches, Sept. 30, 1971 | | | All foreign branches, Sept. 30, 1973 | | |
|--|--------------------------------------|---------|-------|--------------------------------------|---------|-------|--------------------------------------|---------|-------|
| | Percentage distribution | | | Percentage distribution | | | Percentage distribution | | |
| | Amount | Sources | Uses | Amount | Sources | Uses | Amount | Sources | Uses |
| Internal system: | | | | | | | | | |
| U.S. parent: | | | | | | | | | |
| Source: Liabilities to U.S. parent | 704 | 2.4 | | 501 | 0.9 | | 1,178 | 1.1 | |
| Use: Claims on U.S. parent | 11,783 | | 39.4 | 2,969 | | 5.4 | 1,917 | | 1.8 |
| Net position | 11,079 | | | 2,468 | | | 739 | | |
| Branches in other countries: | | | | | | | | | |
| Source: Liabilities to branches | 2,779 | 9.3 | | 7,853 | 14.2 | | 15,150 | 13.9 | |
| Use: Claims on branches | 2,847 | | 9.5 | 7,930 | | 14.3 | 15,092 | | 13.8 |
| Net position | 68 | | | 77 | | | -58 | | |
| Inter-bank market: | | | | | | | | | |
| Source: Liabilities to foreign banks | 16,894 | 56.5 | | 28,489 | 51.5 | | 58,734 | 53.7 | |
| Use: Claims on foreign banks | 6,839 | | 22.9 | 22,305 | | 40.3 | 49,312 | | 45.1 |
| Net position | -10,055 | | | -6,184 | | | -9,422 | | |
| Foreign official institutions: | | | | | | | | | |
| Source: Liabilities to foreign official institutions | 1,781 | 6.0 | | 5,476 | 9.9 | | 8,769 | 8.0 | |
| Use: Claims on foreign official institutions | 445 | | 1.5 | 1,164 | | 2.1 | 2,242 | | 2.1 |
| Net position | -1,336 | | | -4,312 | | | -6,527 | | |
| External market: | | | | | | | | | |
| Source: Liabilities to private foreign depositors | 4,894 | 16.4 | | 8,440 | 15.3 | | 16,221 | 14.8 | |
| Use: Claims on private foreign borrowers | 5,438 | | 18.2 | 15,736 | | 28.5 | 32,274 | | 29.5 |
| Net position | 544 | | | 7,296 | | | 16,053 | | |
| Residual market: | | | | | | | | | |
| Source: all other liabilities | 2,871 | 9.5 | | 4,782 | 8.2 | | 9,278 | 8.5 | |
| Use: all other claims | 2,456 | | 8.2 | 5,030 | | 9.1 | 7,733 | | 7.1 |
| Net position | -393 | | | 248 | | | -1,545 | | |
| Total resources | 29,923 | 100.0 | 100.0 | 55,541 | 100.0 | 100.0 | 109,330 | 100.0 | 100.0 |

TABLE 5b.—SOURCES AND USES OF FUNDS OF FOREIGN BRANCHES OF U.S. BANKS, DECEMBER 1973 TO JUNE 1975
[Dollars of millions]

| Sources and uses of funds | Dec. 31, 1973 | | | | June 30, 1974 | | | | Dec. 31, 1974 | | | | June 30, 1975 | | | |
|---|-------------------------|-------|--------|------|-------------------------|---------|--------|-------|-------------------------|---------|--------|-------|-------------------------|----------|--------|-------|
| | Percentage distribution | | Amount | Uses | Percentage distribution | | Amount | Uses | Percentage distribution | | Amount | Uses | Percentage distribution | | Amount | Uses |
| | Sources | | | | Sources | | | | Sources | | | | Sources | | | |
| Internal bank system: | | | | | | | | | | | | | | | | |
| U.S. parent: | | | | | | | | | | | | | | | | |
| Sources: Liabilities to U.S. parent | \$1,642 | 1.3 | | | | \$3,009 | 2.0 | | | \$5,809 | 3.8 | | | \$12,197 | 7.5 | |
| Uses: Claims on U.S. parent | 1,886 | | 1.5 | | | 4,093 | | 2.8 | | 4,464 | | 2.9 | | 2,341 | | 1.4 |
| Net position | 244 | | | | | 1,084 | | | | -1,345 | | | | -9,856 | | |
| Other branches of U.S. parent: | | | | | | | | | | | | | | | | |
| Sources: Liabilities to branches | 18,213 | 14.9 | | | | 24,234 | 16.4 | | | 26,941 | 17.7 | | | 30,347 | 18.7 | |
| Uses: Claims on branches | 19,177 | | 15.7 | | | 25,020 | | 17.0 | | 27,559 | | 18.1 | | 30,830 | | 19.0 |
| Net position | 964 | | | | | 786 | | | | 618 | | | | 483 | | |
| U.S. domestic market: | | | | | | | | | | | | | | | | |
| Sources: Liabilities to U.S. depositors | 3,968 | 3.3 | | | | 5,540 | 3.8 | | | 6,173 | 4.1 | | | 6,414 | 4.0 | |
| Uses: Claim on U.S. borrowers | 3,205 | | 2.6 | | | 2,682 | | 1.8 | | 2,434 | | 1.6 | | 3,196 | | 2.0 |
| Net position | -763 | | | | | -2,858 | | | | -3,739 | | | | -3,218 | | |
| Foreign inter-bank market: | | | | | | | | | | | | | | | | |
| Sources: Liabilities to foreign banks | 65,389 | 53.7 | | | | 71,956 | 48.8 | | | 65,675 | 43.2 | | | 64,933 | 40.0 | |
| Uses: Claims on foreign banks | 56,368 | | 46.3 | | | 64,434 | | 43.7 | | 60,283 | | 39.7 | | 63,709 | | 39.3 |
| Net position | -9,021 | | | | | -7,522 | | | | -5,392 | | | | -1,224 | | |
| Foreign official institutions: | | | | | | | | | | | | | | | | |
| Sources: Liabilities to foreign official institutions | 10,330 | 8.5 | | | | 13,681 | 9.3 | | | 20,185 | 13.3 | | | 21,104 | 13.0 | |
| Uses: Claims on foreign official institutions | 2,693 | | 2.2 | | | 3,610 | | 2.4 | | 4,077 | | 2.7 | | 4,824 | | 3.0 |
| Net position | -7,637 | | | | | -10,071 | | | | -16,108 | | | | -16,280 | | |
| Foreign private market: | | | | | | | | | | | | | | | | |
| Sources: Liabilities to private foreign depositors | 17,683 | 14.5 | | | | 22,456 | 15.2 | | | 20,189 | 13.3 | | | 20,713 | 12.8 | |
| Uses: Claims on private foreign borrowers | 33,736 | | 27.7 | | | 41,889 | | 28.4 | | 46,795 | | 30.8 | | 51,021 | | 31.5 |
| Net position | 16,053 | | | | | 19,433 | | | | 26,606 | | | | 30,308 | | |
| Residual market: | | | | | | | | | | | | | | | | |
| Sources: All other liabilities | 4,641 | 3.8 | | | | 6,589 | 4.5 | | | 6,933 | 4.6 | | | 6,499 | 4.0 | |
| Uses: All other claims | 4,801 | | 4.0 | | | 5,737 | | 3.9 | | 6,293 | | 4.2 | | 6,286 | | 3.8 |
| Net position | 160 | | | | | -852 | | | | -640 | | | | -213 | | |
| Total resources | 121,866 | 100.0 | 100.0 | | | 147,465 | 100.0 | 100.0 | | 151,905 | 100.0 | 100.0 | | 162,207 | 100.0 | 100.0 |

Source: Federal Reserve Bulletin, January 1975, pp. A-72-73, and October 1975, pp. A-70-71.

SOURCES AND USES OF FUNDS OF FOREIGN BRANCHES OF U.S. BANKS

The data in Tables 5, 5a and 5b outline information available on borrowers and depositors in foreign branches of U.S. banks and document the shifts in the relative importance of various sources and uses of funds over the period from September, 1969 to September, 1975. Two major shifts have occurred during this period: the home office was a major borrower of funds from the branches in September, 1969 but became an important supplier of funds in June, 1975; the relatively balanced position between nonbank credits and deposits which had been maintained by the branches through 1969 shifted substantially in favor of credits in the period thereafter to a peak in September, 1975 with foreign nonbank credits $2\frac{1}{2}$ times deposits in the same category.

The role of capital controls in developing Eurocurrency markets is discussed elsewhere. While the Voluntary Foreign Credit Restraint Program was administered by the Federal Reserve Board—between February, 1965 and January, 1974—offshore lending through the foreign branches increased substantially as did the branches' reliance on overseas funds. Ending the Voluntary Foreign Credit Restraint Program at the beginning of 1974 might have been expected to increase the outflow of funds to finance branch operations, but this did not occur in the first half of 1974 because domestic loan demand was high and interest rates in domestic markets were rising. There was a sharp (85%) increase in short term claims on foreigners by U.S. banks but the increase in long-term claims (19%) was only slightly more than in 1973. During the first six months of 1975, U.S. banks' loans to foreigners declined, as did short-term liabilities to foreigners, indicative of the overall decline in international activity.⁸

The fact that the VFCR Program had been ended did make it possible for banks to respond to the crisis in the Eurocurrency market precipitated by the failures of Franklin National Bank and Herstatt in the summer of 1974 by providing liquidity to branches. Between May and September 1974, the liabilities of foreign branches' of U.S. banks shrank by \$3.4 billion, a decline equal to 3.1% of their total deposits as of May. Most of the decline occurred in the branches' liabilities to other banks. There the drop amounted to \$8.3 billion or 11.2% of outstanding liabilities. Some of the decline was offset by the increase in OPEC deposits but the remainder of the funds used to offset this sharp decline were supplied by the parent banks in the United States.⁹

Although the atmosphere of crisis receded by the end of 1974, Eurocurrency interbank activity did not rise again to previous levels. The foreign interbank market had provided 48.8 percent of total liabilities in June, 1974 but provided only 40.0 percent of the total

⁸ European banks are the major depositors in U.S. banks and have been major borrowers as well. It has been observed that their deposits are the reserves which non-U.S. Eurodollar banks maintain against their dollar deposits and that they are held in the United States for purposes of clearing and liquidity.

Other major developments in foreign lending by banks in the U.S. since the end of the VFCR Program are a substantial decline in short-term claims to Japan between December, 1973 and June, 1975, as well as a decline in short-term claims on foreign banks. The decline in loans to Japan was offset by a substantial increase in bankers' acceptances issued to finance Japan's trade with other countries but sold in the United States. An increase in claims on Latin America reflects loans by U.S. banks to their Caribbean shell branches.

⁹ See also Andrew F. Brimmer and Frederick R. Dahl, "Growth of American International Banking, Implications for Public Policy," address before the Joint Session of the American Economic Association and the American Finance Association, December 28, 1974.

in June 1975, an actual decline of \$7 billion. The share of liabilities provided by foreign non-bank depositors also shrank significantly during this period but was more than offset by the increase in deposits of official institutions, most of which were OPEC funds. Altogether, there was a drop in the proportion of branch funds supplied by foreign sources. Foreign sources (other than banks' own intrabank networks) accounted for 73.3% of total liabilities in June 1974 but for only 65.8% a year later. The difference was made up by a rise in borrowings by the foreign branches from the home office and other U.S. sources which accounted for 11.4% of total liabilities in September 1975.

A glance at the bottom line on Table 10c reveals that the assets of the Caribbean branches rose \$7.9 billion from December, 1974 to June, 1975—76.9% of the increase in assets for all branches—while assets of the London branches grew by only \$947 million over the same period. This supports the thesis that parent bank funding was responsible for the growth in foreign branch credits during this period since most of the growth in assets took place in the Caribbean branches and most of the increase in parent funding occurred there as well. The aggregate amounts involved indicate that this activity largely involves the 20 multinational banks rather than the smaller banks which have only "shell" branches in the Caribbean.¹⁰

Turning to the London branches, (Table 8b), the data reveal that they also increased their liabilities to the parent banks in the period from December, 1974 to June, 1975 and that the amount (\$941 million) is almost the same as the amount of increase in total assets/liabilities for this period (947 million). Foreign interbank deposits in the London branches dropped \$4.8 billion between June and December 1974 and fell another \$2 billion between year-end 1974 and June, 1975. There was a \$4.1 billion increase in deposits of foreign official institutions (OPEC) in the last six months of 1974 but no increase during the first half of 1975. The London branches also increased their borrowings from other branches in the parent network by \$2.3 billion and reduced the amount of funds supplied to the intrabank network by \$1 billion. Clearly, the London branches remained in a somewhat deflated condition through June, 1975.

The shifts in sources and uses of funds in 1974-75 reflect the overall impact that OPEC funds have had on the Eurocurrency market. As foreign governments required additional dollars to finance oil imports, dollar assets were shifted out of the Eurocurrency market and used for that purpose. Since the Eurocurrency interbank market was the repository for most of these assets, it necessarily shrank as foreign banks with external activities loaned their dollar funds to their own governments and returned less to the interbank pool.

As the data indicates, the OPEC funds were not recycled back into the Eurocurrency market, as some had feared, without substantial leakage. A major portion of the dollars withdrawn from the Euro-dollar market have been invested by OPEC countries in national

¹⁰ The 80 banks with only "shell" branches in the Caribbean have \$4.1 billion of assets; 13% of total branch assets in the Bahamas and Cayman Islands (\$31.7 billion). The other 25 banks described in Table 3 above have \$8.6 billion total assets, the bulk of it in full service branches outside the Caribbean. Since these two groups of banks together have only 25-30% of total assets in the Caribbean branches, the \$8 billion derived from parent banks would probably exceed their total liabilities. Thus, a substantial share of these funds are provided by the 20 large multinational banks to their Caribbean branches and, as is obvious, an even larger share of the \$5.8 billion supported to other branches of the parent banks by the Caribbean branches represent claims on branches of the 20 multinational banks.

markets. Breakdowns of the amounts invested in the United States and other countries published monthly in the *Federal Reserve Bulletin* and weekly Federal Reserve data documents the rise in foreign official holdings of U.S. Government obligations. The decisions of OPEC countries to invest in Treasury bills as opposed to Eurodollar deposits may reflect concern for the safety of assets as well as political factors. It does not reflect decisions based on purely economic factors such as interest rate differentials.

In any event, the amount of funds deposited by OPEC countries in the Eurocurrency market was not sufficient to support the lending activities of Eurocurrency banks. In the case of U.S. banks, the additional growth in foreign branch assets which took place during the first nine months of 1975 was funded by the parent banks. Factors which prompted U.S. banks to maintain a \$11 billion level of lending to their branches in the last half of 1975 are discussed in a subsequent section.¹¹

GEOGRAPHIC DISTRIBUTION OF FOREIGN BRANCHES

As Table 3 indicates, there are more branches in Latin America (363) than in any other area. Europe and the Caribbean have almost equal numbers—167 and 166 respectively. The Far East and Middle East together have 138 branches but the majority are located in the Far East. Very few branches have been established in Africa. A somewhat different profile of the relative importance of various geographic areas is stated in Table 6. The breakdown of branch assets reveals that the 55 branches in London had 46.4% of the total at year-end 1974 while the 363 branches in Latin America had only 4.3% of total assets.

TABLE 6.—TOTAL ASSETS/LIABILITIES OF OVERSEAS BRANCHES OF FEDERAL RESERVE MEMBER BANKS BY GEOGRAPHIC AREA AND BY YEAR AS A PERCENTAGE OF TOTAL ASSETS/LIABILITIES FOR EACH YEAR

| Geographic area | 1966 | 1969 | 1970 | 1971 | 1972 | 1973 | 1974 |
|--|-------|-------|-------|-------|-------|-------|-------|
| United Kingdom and Ireland..... | 52.06 | 60.20 | 56.39 | 52.41 | 53.84 | 49.55 | 46.42 |
| Continental Europe..... | 16.32 | 15.72 | 18.05 | 19.26 | 16.83 | 16.85 | 17.35 |
| Bahamas..... | (1) | 7.28 | 8.40 | 11.71 | 14.95 | 17.58 | 16.42 |
| Latin America..... | 3.49 | 3.85 | 3.91 | 3.76 | 3.36 | 4.13 | 4.26 |
| Far East..... | 14.60 | 7.92 | 8.41 | 9.28 | 9.19 | 9.40 | 12.83 |
| Near East and Africa..... | 2.17 | .64 | .60 | .56 | .50 | .53 | .84 |
| U.S. overseas areas and trust territories..... | 6.36 | 4.39 | 4.24 | 3.02 | 2.33 | 1.97 | 1.88 |
| Total..... | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

¹ Included in data for Latin America in 1966.

Note: Data are for end of year.

Source: Federal Reserve Board.

The London branches have held the largest portion of foreign branch assets throughout the previous decade. Their share was 52% in 1966 and rose to 60% in 1969; the year in which they functioned primarily to gather Eurodollars for the parent banks to use in their domestic operations. Since that time, however, there has been a steady decline in the proportion of total assets held in the London branches while the share held by the Latin American branches increased slightly in 1973 and 1974. The data on branch assets held in U.S.

¹¹ See "Some Effects of the Foreign Lending Activities of U.S. Banks."

overseas and trust territories offers a basis for comparison of developments during this period. The fact that this was once a significant component of banks' foreign activities is indicative of the evolving sophistication of international markets. But, despite the enormous increase in the Eurodollar activities of U.S. banks, Latin American branches have continued to be an important part of overseas activity. Not only has the number of branches grown, but their share of total assets has kept pace with the overall growth of branches.

Table 7 provides a more detailed breakdown of branch activity by country and indicates more clearly the degree to which the assets of branches are concentrated in developed countries. It also reveals that the bulk of branch assets are held in international financial centers rather than national money markets. Branches of U.S. banks do relatively little domestic business in London, Luxembourg, Panama and Singapore and none in Nassau and the Cayman Islands. Nevertheless, aggregate assets of branches in these locations was \$124.3 billion in August 1975, or 75% of the total assets of all branches.

TABLE 7.—ASSETS OF FOREIGN BRANCHES OF U.S. BANKS LOCATED IN SELECTED COUNTRIES ¹

(In millions of dollars)

| Country | December 1973 | | December 1974 | | August 1975 | |
|---|------------------|------------------------------|------------------|------------------|--------------|-----------------|
| | Total assets | Adjusted assets ² | Total assets | Adjusted assets | Total assets | Adjusted assets |
| Belgium | 2,628.6 | 2,166.5 | 4,130.7 | 2,793.7 | 4,388.6 | 3,335.8 |
| France | 6,883.5 | 5,462.6 | 8,042.0 | 6,092.4 | 8,415.9 | 6,424.7 |
| Germany | 6,267.5 | 4,263.4 | 8,198.3 | 5,605.5 | 7,246.2 | 5,287.5 |
| Italy | 2,187.7 | 1,479.6 | 2,270.9 | 1,699.4 | 2,143.9 | 1,443.3 |
| Luxembourg | 2,133.3 | 1,677.9 | 1,755.9 | 1,247.8 | 1,424.4 | 1,087.1 |
| Switzerland | 1,159.1 | 837.8 | 1,035.8 | 927.1 | 1,119.2 | 1,045.5 |
| United Kingdom | 61,732.1 | 52,958.6 | 69,804.2 | 57,079.8 | 72,455.0 | 57,241.7 |
| Panama | 1,527.1 | 1,410.5 | 2,691.3 | 2,576.5 | 3,087.7 | 2,999.5 |
| Bahamas | 20,683.5 | 18,921.6 | 27,313.3 | 23,964.5 | 35,677.8 | 30,591.1 |
| Cayman Islands | 3,087.9 | 2,922.3 | 4,419.6 | 4,290.7 | 5,595.3 | 5,459.9 |
| Japan | 6,217.3 | 5,537.0 | 10,265.9 | 9,548.9 | 10,340.7 | 9,434.6 |
| Singapore | 3,147.8 | 2,043.3 | 5,494.7 | 3,317.9 | 6,081.9 | 3,706.1 |
| Taiwan | (³) | (³) | (³) | (³) | 385.9 | 382.7 |
| Total selected countries | 117,655.4 | 99,681.1 | 145,422.6 | 119,114.2 | 158,362.5 | 128,439.5 |
| Total all countries | 121,866.4 | 102,698.4 | 151,905.3 | 124,346.4 | 165,483.7 | 134,205.5 |
| Selected countries as percent of total .. | 96.5 | 97.1 | 95.7 | 95.8 | 95.7 | 95.7 |

¹ Countries in which at least 4 U.S. banks have branches.

² Total assets less claims on other foreign branches of parent bank.

³ Fewer than 4 U.S. banks maintained branches.

Another measure of the amount of branch activity in international markets is provided by a breakdown of the dollar and foreign currency components of branch assets.¹² In 1973 the share of total assets payable in dollars fell to an historic low of 65% but rose again in 1974 to 70% and to 75% in 1975. Further, not all of the 25-35% of assets which have been payable in foreign currencies is indicative of local lending in domestic currencies. Much of it reflects external currency loans and deposits denominated in Eurocurrencies other than Eurodollars.¹³

¹² See Table below.

¹³ Eurocurrencies—or Xenocurrencies as they are sometimes called—are currencies which are held as deposits and are loaned outside the country of which they are the domestic currency. Many of the large syndicated credits in which U.S. banks are participants are denominated in EuroDeutschmarks, Euro Swiss Francs, etc.

SHELL BRANCHES

The Board of Governors has encouraged the formation of overseas branches by a wider number of U.S. banks on the grounds that "the public interest of furthering the foreign commerce of the United States is best served by permitting competitive alternatives among U.S. banks abroad, rather than confining branch facilities to the few very large U.S. banks who have long had foreign branches.¹⁴ In line with this policy, the Board has approved the formation of limited service facilities or "shell" branches—first in Nassau, Bahamas and more recently in the Cayman Islands. These "shell" branches have no contact with the local public and their transactions are directed by the parent bank or, in the case of the large multinational banks, by other foreign branches. The "branch" usually consists of no more than a mailing address. Books are kept by contract parties and are usually duplicates of those kept at the home office. As noted, these branches are merely adjuncts of the Eurocurrency market. Their operations are not related to the financing of U.S.-Latin American trade.

The large majority of the 80 banks which had only a Nassau branch in 1975 were smaller, interior banks without resources to support a full service branch overseas. The Board's decision to approve the formation of such branches was based on consideration of "fairness of equity" and the fact that they would serve as "adjuncts to the totality of foreign branch operations overseas in providing financing and financial services to U.S. business interests." As such, it was decided that their operations "would not be contrary to the public interest."¹⁵

SOURCES AND USES OF BRANCH FUNDS BY GEOGRAPHIC LOCATION

The London branches are the most important segment of the foreign branch network of U.S. banks because they have the largest share of assets and because they supply a substantial portion of funds to other foreign branches. London is the center of the Euro-currency interbank market and the activities of the U.S. banks' branches reflect that fact. They lend a higher percentage of funds to other foreign banks and less to private foreign borrowers than the average for all branches. But as the data in Tables 8a and 8b reveal, they obtain a larger share of private foreign deposits than do other branches. This is indicative of London's position as the preeminent center of international finance and also of the favored position of U.S. banks in that market. Not only have they attracted a substantial portion of funds supplied by private depositors, they also have been the principal depositories of central bank funds and, more recently, of OPEC funds.

¹⁴ Response of Arthur Burns, Chairman, Board of Governors of the Federal Reserve System, to questions submitted by Honorable Wright Patman, *Economic Report of the President, Hearings before the Joint Economic Committee*, February 20, 1973.

¹⁵ *IBID* Federal Reserve Board Governor Andrew F. Brimmer opposed the establishment of shell branches and summarized objections to them as follows:

"While I have looked upon the Nassau shell branches as falling short of the requirements needed to qualify as genuine foreign banking institutions—and the movement to the Caymans simply compounds an already undesirable situation—I have no expectations that the device will disappear. Rather, I would expect these or similar arrangements to be maintained, at least on a minimum-level-of-operations basis, even if the VFCR restraints were to disappear and the demand for Euro-dollars to avoid the pressures generated by domestic monetary restraint falls short of that experienced in earlier years. This expectation rests on the strong incentives provided by income tax havens such as Nassau and the Caymans. In the meantime, beginning about a year ago, the Board has alerted the banks opening shell branches in the Bahamas and the Cayman Islands to the possibility that the conditions under which the Board permits them to do business may be modified. Personally, I hope these will be substantially circumscribed (and preferably cancelled) and hope this is done sooner rather than later. (*American International Banking*, paper presented before the 51st Annual Meeting of the Bankers' Association for Foreign Trade, Boca Raton, Florida, April 2, 1973.)

| Sources and uses of funds | Branches in the United Kingdom Sept. 30, 1969 | | | | Branches in the United Kingdom Sept. 30, 1971 | | | | Branches in the United Kingdom Sept. 30, 1973 | | | |
|---|---|-------|------------------|--------|---|-------|------------------|--------|---|-------|------------------|--------|
| | Percentage distribution | | Percent of total | Amount | Percentage distribution | | Percent of total | Amount | Percentage distribution | | Percent of total | Amount |
| | Sources | Uses | | | Sources | Uses | | | Sources | Uses | | |
| Internal system: | | | | | | | | | | | | |
| U.S. parent: | | | | | | | | | | | | |
| Source: Liabilities to U.S. parent. | \$80 | 0.4 | 11.4 | \$117 | 0.4 | 6.6 | 23.4 | \$161 | 0.3 | 1.1 | 13.7 | |
| Use: Claims on U.S. parent. | 8,829 | 43.8 | 74.9 | 2,143 | | | 72.2 | 604 | | | 31.5 | |
| Net position | 8,749 | | 79.0 | 2,026 | | | 82.1 | 443 | | | 59.9 | |
| Branches in other countries: | | | | | | | | | | | | |
| Source: Liabilities to branches. | 1,257 | 6.2 | 45.2 | 2,645 | 8.1 | 12.5 | 33.7 | 3,678 | 6.6 | 13.5 | 24.3 | |
| Use: Claims on branches | 1,448 | | 50.9 | 4,064 | | | 51.2 | 7,508 | | | 49.7 | |
| Net position | 191 | | 280.9 | 1,419 | | | 1,842.9 | 3,830 | | | -6,603.4 | |
| Interbank market: | | | | | | | | | | | | |
| Source: Liabilities to foreign banks. | 12,454 | 61.8 | 73.7 | 18,431 | 56.6 | 45.1 | 64.7 | 32,210 | 57.8 | 55.6 | 54.8 | |
| Use: Claims on foreign banks | 5,048 | | 73.8 | 14,683 | | | 65.8 | 30,967 | | | 62.8 | |
| Net position | -7,406 | | 73.7 | -3,748 | | | 60.6 | -1,243 | | | 13.2 | |
| Foreign official institutions: | | | | | | | | | | | | |
| Source: Liabilities to foreign official institutions. | 1,149 | 5.7 | 64.5 | 4,318 | 13.3 | | 78.8 | 6,952 | 12.5 | | 79.3 | |
| Use: Claims on foreign official institutions. | 188 | | 42.2 | 512 | | 1.6 | 44.0 | 660 | | 1.2 | 29.4 | |
| Net position | -961 | | 71.9 | -3,806 | | | 88.3 | -6,292 | | | 96.4 | |
| External market: | | | | | | | | | | | | |
| Source: Liabilities to private foreign depositors. | 3,270 | 16.2 | 66.8 | 4,785 | 14.7 | | 56.7 | 8,957 | 16.1 | | 55.2 | |
| Use: Claims on private foreign borrowers. | 2,906 | | 53.4 | 8,387 | | 25.7 | 53.3 | 13,123 | | 23.6 | 40.7 | |
| Net position | -364 | | -66.9 | 3,602 | | | 49.4 | 4,166 | | | 26.0 | |
| Residual market: | | | | | | | | | | | | |
| Source: All other liabilities. | 1,927 | 9.6 | 67.1 | 2,286 | 7.0 | 8.2 | 47.8 | 3,728 | 6.7 | | 40.2 | |
| Use: All other claims | 1,682 | | 68.5 | 2,673 | | | 53.1 | 2,752 | | 4.9 | 35.6 | |
| Net position | -245 | | 62.3 | 387 | | | 156.0 | -976 | | | 63.2 | |
| Total resources | 20,137 | 100.0 | 100.0 | 32,582 | 100.0 | 100.0 | 58.7 | 55,686 | 100.0 | 100.0 | 50.9 | |
| Source: Federal Reserve Board. | | | | | | | | | | | | |

Source: Federal Reserve Board.

TABLE 8b.—SOURCES AND USES OF FUNDS OF UNITED KINGDOM BRANCHES OF U.S. BANKS, DECEMBER 1973 TO JUNE 1975
[Dollar amounts in millions]

| | Dec. 31, 1973 | | | June 30, 1974 | | | Dec. 31, 1974 | | | June 30, 1975 | | |
|---|---------------|-------------------------|-------|---------------|-------------------------|-------|---------------|-------------------------|-------|---------------|-------------------------|-------|
| | Amount | Percentage distribution | | Amount | Percentage distribution | | Amount | Percentage distribution | | Amount | Percentage distribution | |
| Sources and uses of funds | | Sources | Uses | | Sources | Uses | | Sources | Uses | | Sources | Uses |
| Internal bank system: | | | | | | | | | | | | |
| U.S. parent: | | | | | | | | | | | | |
| Sources: Liabilities to U.S. parent | \$136 | 0.2 | | \$606 | 0.8 | | \$510 | 0.7 | | \$1,451 | 2.1 | |
| Uses: Claims on U.S. parent | 738 | | 1.2 | 2,712 | | 3.8 | 2,472 | | 3.5 | 641 | | 0.9 |
| Net position | 602 | | | 2,106 | | | 1,962 | | | -810 | | |
| Other branches of U.S. parent: | | | | | | | | | | | | |
| Sources: Liabilities to branches | 3,944 | 6.4 | | 4,913 | 6.9 | | 4,762 | 6.8 | | 7,030 | 9.9 | |
| Uses: Claims on branches | 8,773 | | 14.2 | 11,886 | | 16.7 | 12,724 | | 18.2 | 13,765 | | 19.5 |
| Net position | 4,829 | | | 6,973 | | | 7,962 | | | 6,735 | | |
| U.S. domestic market: | | | | | | | | | | | | |
| Sources: Liabilities to U.S. depositors | 2,295 | 3.7 | | 3,138 | 4.4 | | 3,458 | 5.0 | | 3,217 | 4.5 | |
| Uses: Claims on U.S. borrowers | 1,051 | | 1.7 | 949 | | 1.3 | 776 | | 1.1 | 1,192 | | 1.7 |
| Net position | -1,244 | | | -2,189 | | | -2,692 | | | -2,025 | | |
| Foreign interbank market: | | | | | | | | | | | | |
| Sources: Liabilities to foreign banks | 35,063 | 56.8 | | 36,838 | 51.7 | | 32,040 | 45.9 | | 30,030 | 42.4 | |
| Uses: Claims on foreign banks | 34,442 | | 55.8 | 36,468 | | 51.1 | 32,701 | | 46.8 | 34,634 | | 49.0 |
| Net position | -621 | | | -366 | | | 661 | | | 4,604 | | |
| Foreign official institutions: | | | | | | | | | | | | |
| Sources: Liabilities to foreign official institutions | 6,056 | 13.0 | | 11,162 | 15.7 | | 15,258 | 21.9 | | 15,524 | 21.9 | |
| Uses: Claims on foreign official institutions | 735 | | 1.2 | 812 | | 1.1 | 788 | | 1.1 | 948 | | 1.3 |
| Net position | -7,321 | | | -10,350 | | | -14,470 | | | -14,576 | | |
| Foreign private market: | | | | | | | | | | | | |
| Sources: Liabilities to private foreign depositors | 10,248 | 16.6 | | 12,516 | 17.6 | | 11,349 | 16.3 | | 11,274 | 15.9 | |
| Uses: Claims on private foreign borrowers | 13,811 | | 22.4 | 16,352 | | 22.9 | 17,898 | | 25.6 | 17,522 | | 24.8 |
| Net position | 3,563 | | | 3,836 | | | 6,549 | | | 6,248 | | |
| Residual market: | | | | | | | | | | | | |
| Sources: All other liabilities | 1,990 | 3.3 | | 2,132 | 3.0 | | 2,417 | 3.5 | | 2,225 | 3.1 | |
| Uses: All other claims | 2,182 | | 3.5 | 2,126 | | 3.0 | 2,445 | | 3.5 | 2,049 | | 2.9 |
| Net position | 192 | | | -10 | | | 28 | | | -176 | | |
| Total resources | 61,732 | 100.0 | 100.0 | 71,305 | 100.0 | 100.0 | 69,804 | 100.0 | 100.0 | 70,751 | 100.0 | 100.0 |

The "shell" branches in the Bahamas and Cayman Islands are almost a mirror image of the London branches in some respects. They rely heavily on other branches in the parent network for funds but, until 1975, loaned only a very small amount to other branches. They have been as dependent on the foreign interbank market for funds to finance their remarkable growth as have the London branches, but have supplied less funds to that market. Instead, the Caribbean branches use a larger share of their funds for loans to the external market than do the London branches.¹⁶ To some extent, this may reflect the fact that it is relatively easy to book loans at the "shell" branches and fund them from London.

It is advantageous to banks to have branches in both London and the Caribbean. As noted, the London branches gather funds for the parent network, the bulk of which are supplied by foreign banks. But banks which receive funds in the London interbank market are also expected to provide their share to others. As table 8b indicates, the London branches of U.S. banks have maintained a relatively balanced position, borrowing and lending almost equal amounts in the interbank market until 1975 when they became net suppliers of dollar funds to other banks.¹⁷

The return on interbank loans is very low. In fact, a Federal Reserve Board survey of the London branches of 15 U.S. banks in 1972 revealed that they had a 0.12 percent rate of return on assets as compared with 0.79 percent rate of return for all insured banks in the United States.¹⁸ But as noted, the London branches supplied funds to the Caribbean branches before 1975, and the Caribbean branches loaned the funds to the external market at rates above the London Interbank Offered rate (LIBO). Thus the low rate of return in London is offset by the higher rate earned in the Caribbean.

Maintaining both a London and a Caribbean branch is advantageous in another way as well. Foreign banks pay taxes to the British government on income earned in London but pay no taxes to local authorities on profits earned in the Caribbean.

Therefore, banks concentrate their necessary but minimally profitable interbank lending in London and their highly profitable lending to the external market in the Caribbean since this reduces the overall amount of foreign taxes paid.

Data on branches located in continental Europe, Latin America and Asia are available only through September, 1973. This information clearly outlines the patterns followed by the branches in these areas in obtaining and using funds but, unfortunately, does not indicate what were their particular fortunes in the crisis of 1974 and the period of declining activity which followed. Branches in continental Europe rely on the interbank market as their primary source of funds and it is probable that they were hit as hard by the sharp drop in interbank funding as were the Caribbean branches.

¹⁶ The London branches loaned \$17.9 billion to private foreign borrowers at year-end 1974 and \$17.5 billion on June 30, 1975 while the Caribbean branches loaned \$11.6 billion and \$13.8 billion on the same dates. These amounts were 25.6% and 24.8% of total assets for the London branches and 36.6% and 34.9% for the Caribbean branches.

¹⁷ As discussed elsewhere, some of these interbank loans are a channel for balance of payment loans to governments, especially after 1974.

¹⁸ F. Brimmer, "American International Banking."

In 1973 the European branches increased their borrowings from foreign banks to almost 58% of total liabilities as funds provided by private foreign depositors declined and loans to the private sector increased (Table 8). In part, this reflected the fact that some governments had imposed exchange controls during the currency crises of June 1972 and March 1973.

[Dollar amounts in millions]

| Sources and uses of funds | Branches in the rest of Europe, Sept. 30, 1969 | | | | Branches in the rest of Europe, Sept. 30, 1971 | | | | Branches in the rest of Europe, Sept. 30, 1973 | | | |
|--|--|-------|------------------|--------|--|-------|------------------|--------|--|-------|------------------|--------|
| | Percentage distribution | | Percent of total | Amount | Percentage distribution | | Percent of total | Amount | Percentage distribution | | Percent of total | Amount |
| | Sources | Uses | | | Sources | Uses | | | Sources | Uses | | |
| Internal system: | | | | | | | | | | | | |
| U.S. parent: | | | | | | | | | | | | |
| Source: Liabilities to U.S. parent | \$122 | 2.3 | 17.3 | \$92 | 0.8 | 0.9 | 18.4 | \$146 | 0.7 | 0.7 | 12.4 | |
| Use: Claims on U.S. parent | 1,466 | 27.1 | 12.4 | 103 | | | 3.5 | 153 | | | 8.0 | |
| Net position | 1,344 | | 12.1 | 11 | | | .4 | 7 | | | .9 | |
| Branches in other countries: | | | | | | | | | | | | |
| Source: Liabilities to branches | 1,000 | 18.5 | 36.0 | 2,648 | 22.2 | | 33.7 | 4,190 | 19.6 | | 27.7 | |
| Use: Claims on branches | 1,003 | | 35.2 | 3,067 | | 25.7 | 38.7 | 4,814 | | 22.6 | 31.9 | |
| Net position | 3 | | 4.4 | 419 | | | 544.2 | 624 | | | -1,075.9 | |
| Interbank market: | | | | | | | | | | | | |
| Source: Liabilities to foreign banks | 2,946 | 54.4 | 17.4 | 6,338 | 53.2 | | 22.2 | 12,307 | 57.7 | | 21.0 | |
| Use: Claims on foreign banks | 989 | | 14.5 | 4,380 | | 36.8 | 19.6 | 8,227 | | 38.6 | 16.7 | |
| Net position | -1,957 | | 19.5 | -1,958 | | | 31.7 | -4,080 | | | 43.3 | |
| Foreign official institutions: | | | | | | | | | | | | |
| Source: Liabilities to foreign official institutions | 153 | 2.8 | 8.6 | 575 | 4.8 | | 10.5 | 989 | 4.6 | | 11.3 | |
| Use: Claims on foreign official institutions | 174 | | 39.1 | 193 | | 1.6 | 16.6 | 614 | | 2.9 | 27.4 | |
| Net position | 21 | | -1.6 | -382 | | | 8.9 | -375 | | | 5.7 | |
| External market: | | | | | | | | | | | | |
| Source: Liabilities to private foreign depositors | 830 | 15.3 | 17.0 | 1,592 | 13.4 | | 18.9 | 2,627 | 12.3 | | 16.2 | |
| Use: Claims on private foreign borrowers | 1,239 | | 22.8 | 2,737 | | 23.0 | 17.4 | 5,559 | | 26.1 | 17.2 | |
| Net position | 409 | | 75.2 | 1,145 | | | 15.7 | 2,932 | | | 18.3 | |
| Residual market: | | | | | | | | | | | | |
| Source: All other liabilities | 368 | 6.8 | 12.8 | 673 | 5.6 | | 14.1 | 1,368 | 6.4 | | 14.7 | |
| Use: All other claims | 497 | | 20.2 | 1,203 | | 10.1 | 23.9 | 1,768 | | 8.3 | 22.9 | |
| Net position | 129 | | -32.8 | 530 | | | 213.7 | 400 | | | -25.9 | |
| Total resources | 5,419 | 100.0 | 18.1 | 11,918 | 100.0 | 100.0 | 21.5 | 21,627 | 100.0 | 100.0 | 19.8 | |

Source: Federal Reserve Board.

Nevertheless, the interbank market and other branches in the parent network supplied the bulk of the funds of continental branches in 1969 and 1971 as well. The interbank market and the parent branch network are also important outlets for funds. Like the London branches, those on the continent were used to gather Eurodollars for their U.S. parents in 1969. During the period when exchange controls were in effect, the European branches increased their borrowings from the domestic interbank markets in the countries in which they were located since interbank borrowing and lending were exempt. They then used these funds to make additional loans to private corporate borrowers. As this profile of their activities and the small share (12%) of liabilities provided by the external market indicate, U.S. banks' branches have had little success in penetrating domestic markets of European countries. It would be useful to know, however, what portion of their assets and liabilities reflect activity in domestic as opposed to international interbank markets.

In 1969 the data for branches in Latin America included assets of the "shell" branches in Nassau (Table 9a). Total assets for these branches were only \$2 billion but 41% were claims on the parent bank. This indicates that the "shell" branches were dominant even then, borrowing dollars in the Eurodollar Market for the use of their parent banks in the United States. By 1971, the "shells" had \$6 billion of assets while Latin American branches had only \$574 million. Assets of the latter more than doubled by 1973 to \$1.3 billion but assets of the Caribbean branches (\$21 billion) were 3½ times greater and had risen to \$41.3 billion by August, 1975.

TABLE 10a.—SOURCES AND USES OF FUNDS OF FOREIGN BRANCHES OF U.S. BANKS
[Dollar amounts in millions]

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| Sources and uses of funds | Branches in Latin America, Sept. 30, 1969 | | | | Branches in Nassau and the Cayman Islands, Sept. 30, 1971 | | | | Branches in the rest of Latin America, Sept. 30, 1971 | | | |
|--|---|-------|-------------------------|------------------|---|-------|-------------------------|------------------|---|-------|-------------------------|------------------|
| | Amount | | Percentage distribution | | Amount | | Percentage distribution | | Amount | | Percentage distribution | |
| | Amount | Uses | Sources | Percent of total | Amount | Uses | Sources | Percent of total | Amount | Uses | Sources | Percent of total |
| Internal system: | | | | | | | | | | | | |
| U.S. parent: | | | | | | | | | | | | |
| Source: Liabilities to U.S. parent | \$97 | 4.6 | | 13.8 | \$26 | 0.4 | | 5.2 | \$12 | 2.1 | | 2.4 |
| Source: Claims on U.S. parent | 880 | 41.4 | | 7.5 | 219 | 3.5 | | 7.4 | 4 | 0.7 | | .1 |
| Net position | 783 | | | 7.1 | 193 | | | 7.8 | -8 | | | - .3 |
| Branches in other countries: | | | | | | | | | | | | |
| Source: Liabilities to branches | 80 | 3.8 | | 2.9 | 914 | 14.8 | | 11.6 | 177 | 30.8 | | 2.3 |
| Source: Claims on branches | 196 | | | 6.9 | 388 | 6.3 | | 4.9 | 22 | 3.8 | | .3 |
| Net position | 116 | | | 170.6 | -526 | | | -683.1 | -155 | | | -201.3 |
| Interbank market: | | | | | | | | | | | | |
| Source: Liabilities to foreign banks | 1,359 | 64.0 | | 8.0 | 3,257 | 52.6 | | 11.4 | 4 | .7 | | (1) |
| Source: Claims on foreign banks | 404 | | | 5.9 | 2,210 | 35.7 | | 9.9 | 9 | 1.6 | | (1) |
| Net position | -955 | | | 9.5 | -1,047 | | | 16.9 | 5 | | | (1) |
| Foreign official institutions: | | | | | | | | | | | | |
| Source: Liabilities to foreign official institutions | 44 | 2.1 | | 2.5 | 123 | 2.0 | | 2.2 | 0 | 0 | | 0 |
| Source: Claims on foreign official institutions | 29 | | | 6.5 | 319 | 5.2 | | 27.4 | 8 | 1.4 | | .7 |
| Net position | -15 | | | 1.1 | 196 | | | -4.5 | 8 | | | - .2 |
| External market: | | | | | | | | | | | | |
| Source: Liabilities to private foreign depositors | 376 | 17.7 | | 7.7 | 1,048 | 16.9 | | 12.4 | 90 | 15.7 | | 1.1 |
| Source: Claims on private foreign borrowers | 451 | | | 8.3 | 2,105 | 34.0 | | 13.4 | 503 | 87.6 | | 3.2 |
| Net position | 75 | | | 13.8 | 1,057 | | | 14.5 | 413 | | | 5.7 |
| Residual market: | | | | | | | | | | | | |
| Source: All other liabilities | 2169 | 8.0 | | 5.9 | 825 | 13.3 | | 17.3 | 291 | 50.7 | | 6.1 |
| Source: All other claims | 156 | | | 7.3 | 950 | 15.3 | | 18.9 | 18 | 3.1 | | .4 |
| Net position | -13 | | | 3.3 | 125 | | | 50.4 | -273 | | | -110.1 |
| Total resources | 2,125 | 100.0 | 100.0 | 7.1 | 6,193 | 100.0 | 100.0 | 11.2 | 2,574 | 100.0 | 100.0 | 1.0 |

¹ Indicates amount less than \$50,000 or less than 0.05 percent.

² Includes the net source of funds in Panama derived from other foreign branches of U.S. parent banks.

Source: Federal Reserve Board.

TABLE 10b.—SOURCES AND USES OF FUNDS OF FOREIGN BRANCHES OF U.S. BANKS, SEPT. 30, 1973

(Dollar amounts in millions)

| Sources and uses of funds | Branches in Nassau and the Cayman Islands | | | Branches in the rest of Latin America | | | |
|--|---|---------|------------------|---------------------------------------|------------------|--------------------|------------------|
| | Percentage distribution | | Percent of total | Percentage distribution | | Amount | Percent of total |
| | Amount | Sources | Uses | Sources | Uses | | |
| Internal system: | | | | | | | |
| U.S. parent: | | | | | | | |
| Source: Liabilities to U.S. parent | \$358 | 1.7 | --- | 30.4 | --- | \$8 | 0.7 |
| Use: Claims on U.S. parent | 490 | --- | 2.3 | 25.6 | 0.8 | 10 | .5 |
| Net position | 132 | --- | --- | 17.9 | --- | 2 | .3 |
| Branches in other countries: | | | | | | | |
| Source: Liabilities to branches | 4,627 | 22.0 | --- | 30.5 | --- | 107 | .7 |
| Use: Claims on branches | 1,739 | --- | 8.3 | 11.5 | 5.5 | 71 | .5 |
| Net position | -2,888 | --- | --- | 4,979.3 | --- | -36 | 62.1 |
| Interbank market: | | | | | | | |
| Source: Liabilities to foreign banks | 11,582 | 55.5 | --- | 19.9 | --- | 418 | .7 |
| Use: Claims on foreign banks | 8,313 | --- | 39.5 | 16.9 | 3.8 | 49 | .1 |
| Net position | -3,369 | --- | --- | 35.8 | --- | -369 | 3.9 |
| Foreign official institutions: | | | | | | | |
| Source: Liabilities to foreign official institutions | 353 | 1.7 | --- | 4.0 | (¹) | (¹) | (¹) |
| Use: Claims on foreign official institutions | 696 | --- | 3.3 | 31.0 | .9 | 12 | .5 |
| Net position | 343 | --- | --- | -5.3 | --- | 12 | .2 |
| External market: | | | | | | | |
| Source: Liabilities to private foreign depositors | 2,181 | 10.4 | --- | 13.4 | --- | 165 | 1.0 |
| Use: Claims on private foreign borrowers | 7,509 | --- | 35.7 | 23.3 | 83.7 | 1,076 | 3.3 |
| Net position | 5,328 | --- | --- | 33.2 | --- | 911 | 5.7 |
| Residual market: | | | | | | | |
| Source: All other liabilities | 1,858 | 8.8 | --- | 20.0 | --- | ² 589 | 6.3 |
| Use: All other claims | 2,301 | --- | 10.9 | 29.8 | 4.0 | 51 | .7 |
| Net position | 443 | --- | --- | -28.7 | --- | -538 | 34.8 |
| Total resources | 21,059 | 100.0 | 100.0 | 19.3 | 100.0 | ² 1,286 | 1.2 |

Source: Federal Reserve Board.

¹ Indicates amount less than \$50,000 or less than 0.05 percent.² Includes the net source of funds in Panama derived from other foreign branches of U.S. parent banks.

(\$Dollar amounts in millions)

| Sources and uses of funds | Dec. 31, 1973 | | | June 30, 1974 | | | Dec. 31, 1974 | | | June 30, 1975 | | |
|---|---------------|-------------------------|-------|---------------|-------------------------|-------|---------------|-------------------------|-------|---------------|-------------------------|-------|
| | Amount | Percentage distribution | Uses | Amount | Percentage distribution | Uses | Amount | Percentage distribution | Uses | Amount | Percentage distribution | Uses |
| Internal bank system: | | | | | | | | | | | | |
| U.S. parent: | | | | | | | | | | | | |
| Sources: Liabilities to U.S. parent | \$307 | 1.3 | | \$911 | 2.9 | | \$2,636 | 8.3 | | \$8,322 | 21.0 | |
| Uses: Claims on U.S. parent | 317 | | 1.3 | 981 | | 3.1 | 1,081 | | 3.4 | 987 | | 2.5 |
| Net position | 10 | | | 70 | | | -1,555 | | | +7,335 | | |
| Other branches of U.S. parent: | | | | | | | | | | | | |
| Sources: Liabilities to branches | 5,508 | 23.2 | | 7,642 | 24.5 | | 7,702 | 24.3 | | 8,075 | 20.4 | |
| Uses: Claims on branches | 1,928 | | 8.1 | 3,274 | | 10.5 | 3,478 | | 11.0 | 5,831 | | 14.7 |
| Net position | -3,580 | | | -4,368 | | | -4,224 | | | -2,244 | | |
| U.S. domestic market: | | | | | | | | | | | | |
| Sources: Liabilities to U.S. depositors | 1,266 | 5.3 | | 1,944 | 6.2 | | 2,180 | 6.9 | | 2,544 | 6.4 | |
| Uses: Claims on U.S. borrowers | 1,893 | | 8.0 | 1,446 | | 4.6 | 1,382 | | 4.4 | 1,645 | | 4.1 |
| Net position | 627 | | | -498 | | | -798 | | | -899 | | |
| Foreign interbank market: | | | | | | | | | | | | |
| Sources: Liabilities to foreign banks | 14,071 | 59.2 | | 16,496 | 52.8 | | 14,050 | 44.3 | | 14,482 | 36.5 | |
| Uses: Claims on foreign banks | 9,895 | | 41.6 | 12,702 | | 40.7 | 11,354 | | 35.8 | 13,747 | | 34.7 |
| Net position | -4,176 | | | -3,794 | | | -2,696 | | | -735 | | |
| Foreign official institutions: | | | | | | | | | | | | |
| Sources: Liabilities to foreign official institutions | 492 | 2.1 | | 1,096 | 3.5 | | 2,377 | 7.5 | | 3,036 | 7.7 | |
| Uses: Claims on foreign official institutions | 1,151 | | 4.8 | 1,668 | | 5.3 | 2,022 | | 6.4 | 2,772 | | 7.0 |
| Net position | 659 | | | 572 | | | -355 | | | -264 | | |
| Foreign private market: | | | | | | | | | | | | |
| Sources: Liabilities to private foreign depositors | 1,676 | 7.1 | | 2,490 | 8.0 | | 2,011 | 6.3 | | 2,393 | 6.0 | |
| Uses: Claims on private foreign borrowers | 8,068 | | 33.9 | 10,361 | | 33.2 | 11,601 | | 36.6 | 13,832 | | 34.9 |
| Net position | 6,392 | | | 7,871 | | | 9,590 | | | 11,439 | | |
| Residual market: | | | | | | | | | | | | |
| Sources: All other liabilities | 451 | 1.9 | | 639 | 2.0 | | 778 | 2.5 | | 793 | 2.0 | |
| Uses: All other claims | 520 | | 2.2 | 787 | | 2.5 | 815 | | 2.6 | 831 | | 2.1 |
| Net position | 69 | | | 148 | | | 37 | | | 38 | | |
| Total resources | 23,771 | 100.0 | 100.0 | 31,219 | 100.0 | 100.0 | 31,733 | 100.0 | 100.0 | 39,645 | 100.0 | 100.0 |

Source: "Federal Reserve Bulletin," January 1975, pp. A-72-73, and October 1975, pp. A-70-71.

The salient characteristic of the Latin American branches is the extraordinarily high proportion of loans to private foreign borrowers—87.6% in 1971 and 83.7% in 1973. This amount of lending involvement with the private market is not matched, however, on the liability side. Private foreign depositors are not important sources of funds. The most important source in both 1971 and 1973 was the intrabranh network of the parent banks which provided funds both directly and indirectly to the Latin American branches, the major portion being supplied indirectly; through branches in Panama. Latin American branches derived less than 1% of their liabilities from the international interbank market in 1971 but by 1973, 32.5% of their liabilities came from that source. Most of this represents borrowings by the Panama branches and reflects the growth of Panama as an international financial center over this period. A very small share of Latin American branch assets are claims on foreign banks or the parent branch network. As noted, private foreigners receive the bulk of the loans, a little over \$1 billion in 1973. Who these borrowers are and in which countries they operate is not known.

TABLE 11a. SOURCES AND USES OF FUNDS OF FOREIGN BRANCHES OF U.S. BANKS

(Dollar amounts in millions)

| Sources and uses of funds | Branches in Asia, September 30, 1969 | | | | Branches in Hong Kong and Singapore, September 30, 1971 | | | | Branches in the rest of Asia, September 30, 1971 | | | |
|--|--------------------------------------|---------|------------------|------------------|---|---------|------------------|------------------|--|---------|--------|------------------|
| | Percentage distribution | | Percent of total | Percent of total | Percentage distribution | | Percent of total | Percent of total | Percentage distribution | | Amount | Percent of total |
| | Amount | Sources | Uses | Uses | Amount | Sources | Uses | Uses | Amount | Sources | Uses | Uses |
| Internal system: | | | | | | | | | | | | |
| U.S. parent bank: | | | | | | | | | | | | |
| Source: Liabilities to U.S. parent | \$404 | 18.0 | 57.4 | | \$12 | 1.7 | | 2.4 | \$243 | 6.8 | | 48.5 |
| Use: Claims on U.S. parent | 608 | 27.1 | 5.2 | | 11 | | 1.6 | .4 | 488 | | 13.6 | 16.4 |
| Net position | 204 | | 1.8 | | -1 | | | (*) | 245 | | | 9.9 |
| Branches in other countries: | | | | | | | | | | | | |
| Source: Liabilities to branches | 442 | 19.7 | 15.9 | | 279 | 40.2 | | 3.6 | 1,190 | 33.2 | | 15.2 |
| Use: Claims on branches | 200 | | 7.0 | 8.9 | 262 | | 37.8 | 3.3 | 127 | | 3.5 | 1.6 |
| Net position | -242 | | -355.9 | | -17 | | | -22.1 | -1,063 | | | -1,380.5 |
| Interbank market: | | | | | | | | | | | | |
| Source: Liabilities to foreign banks | 136 | 6.1 | .8 | | 172 | 24.8 | | .6 | 287 | 8.0 | | 1.0 |
| Use: Claims on foreign banks | 398 | | 5.8 | 17.8 | 45 | | 6.5 | 2.0 | 978 | | 27.3 | 4.4 |
| Net position | 262 | | -2.6 | | -127 | | | 2.1 | 691 | | | -11.2 |
| Foreign official institutions: | | | | | | | | | | | | |
| Source: Liabilities to foreign official institutions | 434 | 19.4 | 24.4 | | 3 | .4 | | | 457 | 12.8 | | 8.3 |
| Use: Claims on foreign official institutions | 54 | | 12.1 | 2.4 | 12 | | 1.7 | 1.0 | 120 | | 3.4 | 10.3 |
| Net position | 381 | | 28.5 | | 9 | | | -.2 | -337 | | | 7.8 |
| External market: | | | | | | | | | | | | |
| Source: Liabilities to private foreign depositors | 418 | 18.6 | 8.5 | | 181 | 26.1 | | 2.1 | 745 | 20.8 | | 8.8 |
| Use: Claims on private foreign borrowers | 842 | | 15.5 | 37.6 | 300 | | 43.2 | 1.9 | 1,703 | | 47.5 | 10.8 |
| Net position | 424 | | 77.9 | | 119 | | | 1.6 | 958 | | | 13.1 |
| Residual market: | | | | | | | | | | | | |
| Source: All other liabilities | 407 | 18.2 | 14.2 | | 47 | 6.8 | | 1.0 | 660 | 18.4 | | 13.8 |
| Use: All other claims | 120 | | 4.9 | 5.4 | 85 | | 12.2 | 1.7 | 101 | | 2.8 | 2.0 |
| Net position | -287 | | 73.0 | | 38 | | | 15.3 | -559 | | | -225.4 |
| Total resources | 2,242 | 100.0 | 100.0 | | 694 | 100.0 | | 1.2 | 3,582 | 100.0 | | 6.4 |

Source: Federal Reserve Board.

TABLE 11b.—SOURCES AND USES OF FUNDS OF FOREIGN BRANCHES OF U.S. BANKS, SEPT. 30, 1973
[Dollar amounts in millions]

| Sources and uses of funds | Branches in Hong Kong and Singapore Sept. 30, 1973 | | | Branches in the rest of Asia Sept. 30, 1973 | | |
|---|--|---------|------------------|---|--------|------------------|
| | Percentage distribution | | Percent of total | Percentage distribution | | Percent of total |
| | Amount | Sources | | Uses | Amount | |
| Internal system: | | | | | | |
| U.S. parent: | | | | | | |
| Source: Liabilities to U.S. parent..... | \$45 | 1.6 | 3.8 | \$461 | 6.7 | 39.1 |
| Use: Claims on U.S. parent..... | 28 | 1.0 | 1.5 | 632 | 9.1 | 33.0 |
| Net position..... | -17 | | -2.3 | 171 | | 23.1 |
| Branches in other countries: | | | | | | |
| Source: Liabilities to branches..... | 727 | 26.4 | 4.8 | 1,821 | 26.3 | 12.0 |
| Use: Claims on foreign banks..... | 721 | 26.2 | 4.8 | 238 | 3.4 | 1.6 |
| Net position..... | -6 | | 10.3 | -1,583 | | 2,729.3 |
| Interbank market: | | | | | | |
| Source: Liabilities to foreign banks..... | 1,189 | 43.1 | 2.0 | 928 | 13.4 | 1.6 |
| Use: Claim on foreign banks..... | 580 | 21.0 | 1.2 | 1,176 | 17.0 | 2.4 |
| Net position..... | -609 | | 6.5 | 248 | | -2.6 |
| Foreign official institutions: | | | | | | |
| Source: Liabilities to foreign official institutions..... | 60 | 2.3 | .1 | 415 | 6.0 | 4.7 |
| Use: Claims on foreign official institutions..... | 36 | 1.3 | 1.6 | 224 | 3.2 | 10.0 |
| Net position..... | -24 | | .4 | -191 | | 2.9 |
| External market: | | | | | | |
| Source: Liabilities to private foreign depositors..... | 532 | 19.3 | 3.3 | 1,758 | 25.4 | 10.8 |
| Use: Claims on private foreign borrowers..... | 1,200 | 43.5 | 3.7 | 3,807 | 55.1 | 11.8 |
| Net position..... | 668 | | 4.2 | 2,049 | | 12.8 |
| Residual market: | | | | | | |
| Source: All other liabilities..... | 203 | 7.4 | 2.2 | 1,531 | 22.1 | 16.5 |
| Use: All other claims..... | 215 | 7.8 | 2.8 | 647 | 9.4 | 8.4 |
| Net position..... | 12 | | - .8 | -884 | | 57.2 |
| Total resources..... | 2,756 | 100.0 | 2.5 | 6,914 | 100.0 | 6.3 |

Like Latin America and the Caribbean, Asia also has developing international financial centers in Hong Kong and Singapore. In 1971, U.S. bank branches in these 2 centers had \$694 million in assets. By 1973, their assets had risen to \$2.7 billion and in August, 1975 the Singapore branches had over \$6 billion in assets. As Table 10a indicates, branches in Hong Kong and Singapore relied heavily on the internal systems of their parent banks in starting up operations in the emerging Asian currency market in 1971. The private market and the nonrelated interbank market together provided only about half their funds. They loaned a substantial portion of their funds to the private market, but almost none were loaned to other banks. By 1973, these branches had shifted to the nonrelated interbank market as a primary source of funds and were providing substantially more funds to foreign banks as well. Their principal borrowers however, continued to be private foreigners but there was a notable decline in the proportion of funds provided by private depositors (Table 10b).

There has been a substantial increase in the assets of branches in the rest of Asia between 1969 and 1975. Between 1971 and 1973, Asian branches other than those in Hong Kong and Singapore increased their assets from \$3.6 billion to \$6.9 billion. In August 1975, assets of branches in Japan—the most important as measured by the share of funds of all branches in the Far East—were \$10.3 billion. For the most part, branches in other parts of Asia are located in less developed—or at least, less industrial—countries. Unfortunately, there are no data on sources and uses of funds by branches in Japan, but since the bulk of branch funds in Asia other than those in Hong Kong and Singapore are in Japan, it is probable that the aggregate data largely reflects the ways branches in Japan obtain and use funds.

As the data in Tables 10a and 10b indicate, Asian branches are similar to those in Latin America in that they derive a smaller proportion of their funds from the interbank market than the average for all branches. Moreover, the funds which these branches supplied to the interbank market declined between 1971 and 1973. The most notable characteristic of these branches, however, is the large proportion of funds which they supply to private foreign borrowers and—relative to the average for all branches—the high proportion of funds derived from this source as well. Another characteristic of these offices which represents a departure from the norm is the relatively high proportion of funds obtained from and supplied to the parent banks in both 1971 and 1973. These ratios are substantially higher than for branches in any other area in this period.

CHAPTER 3

FOREIGN SUBSIDIARIES AND AFFILIATES OF U.S. BANKS

The catalogue of foreign subsidiaries and affiliates of U.S. banks (Appendix A) presents an extraordinary picture of the range of activities of the larger U.S. banks and their importance in both international and national financial markets around the world. The list of countries in which they own companies (Table 1) documents the rapidity of growth in this area. In 1966 U.S. banks had investments overseas in a total of 123 companies in 43 countries. By 1971, they owned interests in 416 companies in 74 countries. Between 1971 and 1973, there was a substantial increase in the number of foreign companies owned to 1670. Some of this increase is due to the inclusion of information on a few bank holding companies which were not included in earlier tabulations, but it is also due to *de novo* acquisitions by bank holding companies following the enactment of the 1970 Bank Holding Company Amendments. There was a virtual explosion in overseas activities as a result of the growth in foreign investments and branch assets in 1973. By the end of that year, U.S. banks held equity interests in companies in 102 countries. Before discussing these companies, it might be useful to provide the legal and structural framework in which they are made.

TABLE 1.—NUMBER OF OVERSEAS SUBSIDIARIES AND AFFILIATES OF U.S. BANKS IN INDIVIDUAL COUNTRIES, 1966, 1971, 1973

| Country | 1966 | 1971 | 1973 | Country | 1966 | 1971 | 1973 |
|---------------------------|------|------|------|---|------|------|-------|
| Afghanistan..... | 0 | 0 | 1 | Libya..... | 1 | 0 | 1 |
| Angola..... | 0 | 0 | 2 | Luxembourg..... | 3 | 14 | 50 |
| Argentina..... | 3 | 9 | 32 | Macao..... | 0 | 0 | 2 |
| Australia..... | 4 | 29 | 90 | Malaysia..... | 1 | 5 | 9 |
| Austria..... | 1 | 6 | 8 | Martinique..... | 0 | 0 | 1 |
| Bahamas..... | 5 | 17 | 41 | Mauritania..... | 0 | 0 | 2 |
| Belgium..... | 1 | 10 | 44 | Mexico..... | 4 | 8 | 30 |
| Bermuda..... | 1 | 2 | 3 | Morocco..... | 0 | 5 | 8 |
| Brazil..... | 2 | 12 | 95 | Monaco..... | 0 | 0 | 1 |
| Bolivia..... | 0 | 0 | 2 | Netherlands..... | 3 | 7 | 12 |
| British Honduras..... | 0 | 1 | 1 | Netherlands Antilles..... | 0 | 3 | 9 |
| Burundi..... | 0 | 0 | 1 | New Caledonia..... | 0 | 1 | 1 |
| Cameroon..... | 1 | 2 | 2 | New Hebrides Trust Adminis- tration..... | 0 | 0 | 1 |
| Canada..... | 6 | 9 | 95 | New Zealand..... | 0 | 2 | 7 |
| Cayman Islands..... | 0 | 5 | 17 | Nicaragua..... | 1 | 4 | 10 |
| China..... | 0 | 0 | 2 | Nigeria..... | 0 | 3 | 7 |
| Chile..... | 0 | 0 | 3 | Norway..... | 0 | 1 | 1 |
| Congo (Brazzaville)..... | 0 | 2 | 2 | Oman..... | 0 | 0 | 1 |
| Colombia..... | 2 | 11 | 31 | Pakistan..... | 0 | 2 | 1 |
| Costa Rica..... | 0 | 6 | 20 | Panama..... | 1 | 6 | 28 |
| Denmark..... | 0 | 1 | 2 | Paraguay..... | 0 | 0 | 2 |
| Dominican Republic..... | 0 | 0 | 4 | Papua and New Guinea..... | 0 | 1 | 1 |
| Dubai Trucial States..... | 0 | 3 | 4 | Peru..... | 2 | 2 | 8 |
| Ecuador..... | 0 | 5 | 7 | Philippines..... | 7 | 9 | 22 |
| El Salvador..... | 2 | 2 | 1 | Portugal..... | 0 | 1 | 2 |
| England..... | 19 | 45 | 214 | Puerto Rico..... | 0 | 2 | 29 |
| Fiji..... | 0 | 0 | 1 | Rwanda..... | 0 | 1 | 1 |
| Finland..... | 0 | 2 | 2 | Senegal..... | 1 | 2 | 3 |
| France..... | 8 | 22 | 88 | Singapore..... | 1 | 3 | 11 |
| Gabon..... | 1 | 1 | 1 | South Africa..... | 2 | 2 | 8 |
| Germany..... | 2 | 9 | 33 | Spain..... | 9 | 14 | 23 |
| Ghana..... | 0 | 1 | 1 | Surinam..... | 0 | 0 | 1 |
| Greece..... | 1 | 3 | 5 | Sweden..... | 0 | 1 | 2 |
| Guam..... | 0 | 0 | 2 | Switzerland..... | 5 | 16 | 33 |
| Guatemala..... | 1 | 2 | 3 | Tahiti..... | 0 | 1 | 3 |
| Haiti..... | 0 | 0 | 1 | Tonga..... | 0 | 0 | 1 |
| Honduras..... | 2 | 4 | 14 | Taiwan..... | 3 | 4 | 7 |
| Hong Kong..... | 1 | 6 | 38 | Thailand..... | 0 | 8 | 24 |
| Italy..... | 4 | 11 | 33 | Tunisia..... | 1 | 3 | 4 |
| India..... | 0 | 2 | 8 | Turkey..... | 1 | 3 | 4 |
| Indonesia..... | 0 | 1 | 10 | United States..... | 0 | 0 | 55 |
| Iran..... | 1 | 4 | 8 | Uganda..... | 0 | 0 | 1 |
| Ireland..... | 0 | 2 | 17 | Uruguay..... | 0 | 0 | 1 |
| Israel..... | 0 | 2 | 28 | Venezuela..... | 2 | 5 | 27 |
| Ivory Coast..... | 2 | 3 | 3 | Western Samoa..... | 0 | 0 | 2 |
| Jamaica..... | 0 | 5 | 13 | Virgin Islands..... | 1 | 1 | 2 |
| Japan..... | 0 | 8 | 13 | Yugoslavia..... | 0 | 0 | 2 |
| Jordan..... | 0 | 0 | 2 | Zaire..... | 0 | 3 | 9 |
| Korea..... | 0 | 1 | 3 | Zambia..... | 1 | 1 | 1 |
| Kenya..... | 0 | 0 | 1 | | | | |
| Lebanon..... | 0 | 3 | 14 | Companies..... | 123 | 416 | 1,670 |
| Liberia..... | 3 | 3 | 20 | Countries..... | 43 | 74 | 102 |
| Liechtenstein..... | 0 | 0 | 3 | | | | |

Note: These numbers differ from those given for total investments since several banks in some cases have investments in the same company.

Source: Federal Reserve Board; compiled by staff, House Banking, Currency and Housing Committee.

EDGE ACT CORPORATIONS

The Edge Act Corporations, authorized by legislation sponsored by Senator Walter Edge in 1919, are domestic subsidiaries chartered by the Federal Reserve Board and empowered to engage in international banking and overseas investment activities similar to those permitted state chartered corporations—the so-called “Agreement” corporations—which had been brought under Federal Reserve Board

regulation in 1916.¹ These corporations were a favored vehicle for international operations of U.S. banks in the post-World War I era but had declined significantly in importance by 1925 and until the mid 1950s—due to the Depression and World War II—were all but abandoned. Of the 6 banks with Edge or Agreement Corporations in 1955, all had a tradition of overseas banking and 4 of the corporations had been in existence before World War II.²

Edge Corporations are prohibited from carrying on any part of their business in the United States except that which, in the judgment of the Board of Governors of the Federal Reserve System, is incidental to their foreign business. The legislative history of the Act passed in 1919 indicates that the intent was to insulate international banking activities from the domestic credit structure. Edge Corporations may receive deposits outside the United States but can receive only demand deposits within the United States which are incidental to or for the purpose of carrying out transactions overseas.³ They may invest in the stock of other corporations⁴ but are prohibited from investing in the stock of corporations engaged in the general business of buying or selling goods, wares, merchandise or commodities in the United States or transacting any business in the United States except that which may be incidental to their international or foreign business. Because Edge Corporations are authorized only to conduct an international or foreign banking business, they can be formed in consortium with other U.S. banks and non-banking firms and may be established in a State or States other than that in which the parent bank is located. They are also not subject to domestic restrictions separating commercial and investment banking.⁵

The surge in international lending by banks in the United States was partly responsible for a 5-fold increase in the number of banks with Edge Corporations in the period 1955 and 1965 and a 6-fold increase in the number of corporations. Edge Act Corporations acted as New York branches for the international departments of banks located in other States. Banks without the resources necessary to establish branches found it convenient to invest in foreign banks

¹ Section 25 of the Federal Reserve Act authorizes investments by national banks in state chartered Agreement corporations provided these corporations enter into an agreement with the Board to be governed by Board regulation. Because investments in Edge Corporations were authorized later and under somewhat more restrictive conditions, Agreement Corporations were the more popular vehicle for international operations in the pre-Depression period. Today both types of corporations are subject practically to the same regulatory treatment and differ only in that Agreement corporations are more limited in the scope of their activities under law and are not subject to the minimum capital requirement of \$2 million as are Edge corporations. Of the 85 corporations in existence at the end of 1971, only 5 were Agreement corporations. These 5 are either maintained for historical reasons, conduct specialized operations or do not need \$2 million capital.

² These banks were First National City Bank, First National Bank of Boston, Chase Manhattan Bank N. A., Bankers Trust Co., Morgan Guaranty Trust Co., and Bank of America NT&SA. All but Morgan Guaranty and Bank of America had established corporations by 1938. In 1945, Morgan & Cie., Paris, a subsidiary of J. P. Morgan and Co., became an Agreement Corporation and in 1949 Bank of America was chartered as an Edge Act subsidiary in New York City.

³ Deposits received in the United States are subject to reserve requirements of not less than 10 per cent. In addition, the aggregate amount of liabilities outstanding may be limited by the Board. For these and other provisions, see Section 25(a), Federal Reserve Act.

⁴ An Edge Corporation cannot invest more than 10% of its capital stock in any one corporation except corporations engaged in banking in which case the limit is 15%. It cannot hold stock in a corporation with which it is in competition or which holds stocks in other corporations which are in competition with the purchasing corporation.

⁵ There was only one Edge Corporation in operation when the Glass-Steagall Act was passed in 1933, and the corporations were not included in its restrictions on purchasing, selling, underwriting and holding investment securities and stocks. In 1957 the Board amended Regulation K in an effort to make the operations of the corporations conform somewhat more closely to domestic restrictions by requiring that the operations of a corporation be confined either to commercial banking or to investment banking. As a result, 11 banks acquired "twin" corporations to engage in both types of operations. In 1963, Regulation K was again revised and Edge Corporations were again allowed to combine investment and commercial banking under one roof.

through the corporations. Moreover, the flexibility of an Edge Corporation and range of its permissible activities was much greater than that of branches. The extraordinary increase in the number of equity investments of Edge and Agreement Corporations—from 12 in 1955 to 260 in 1965—illustrates the extent to which their investment potential favored their growth during this period.⁶

DIRECT INVESTMENTS IN FOREIGN BANKS

U.S. banks, not surprisingly, respond to pressures from their customers. With the imposition of the Voluntary Foreign Credit Restraint guidelines in February 1965, their response was to seek funds overseas to continue the foreign lending activities built up by their home offices. This response was applauded and facilitated by the regulatory authorities.⁷

The structure of U.S. international banking operations in 1965 suggested that the movement of foreign lending overseas would occur through the Edge Corporations and their foreign subsidiaries. The three largest banks—Bank of America, Chase Manhattan Bank and First National City Bank—had extensive overseas branch networks but in 1965 and 1966, only 9 other banks⁸ had foreign branches and only 4 of these had branches in locations other than London. The fact that 16 other banks had established Edge Corporations and were engaged in overseas banking operations through investments in foreign financial institutions by the corporations indicated that this would be the preferred method of shifting foreign lending overseas for the majority of U.S. banks.

In July 1966, Section 25 of the Federal Reserve Act was amended to permit national Banks to invest up to 25 per cent of capital and surplus in one or more foreign banks without having to arrange such investments indirectly through Edge Corporations.⁹ While U.S. banks and bank holding companies making direct investments overseas are restricted to investments in banking institutions, the foreign banks and bank holding companies in which they may invest are not so restricted.¹⁰ Foreign banks and bank holding companies which are direct subsidiaries or affiliates of U.S. banks may hold investments in other banks, financial institutions or nonfinancial institutions. There is, therefore, very little difference in latitude or scope of operations possible in terms of overseas subsidiary and affiliate relationships through either direct equity investments or those made through Edge Corporations.¹¹

The 1966 amendments to the Bank Holding Company Act also permitted a regulated multi-bank holding company to acquire directly foreign institutions principally engaged in banking without Federal Reserve Board approval. In 1970 an amendment was added which required prior approval by the Board and waived the restriction of

⁶ In 1965, Edge Corporations held 70 investments in banking institutions at a cost of \$91.9 million, 159 investments in other financial institutions at a cost of \$50.8 million and 31 investments in nonfinancial companies at a cost of \$3.6 million. (*The International Operations of U.S. Banks*, Division of Supervision and Regulation, Board of Governors of the Federal Reserve System, 1968, p. IV-14.)

⁷ See Section on Supervision and Regulation.

⁸ The 13th bank was the Virgin Islands National Bank, a subsidiary of First Pennsylvania Banking & Trust Co., organized as an Agreement Corporation which had 2 branches in the British Virgin Islands.

⁹ The provision was suggested by Comptroller of the Currency James J. Saxon as an amendment to the Senate version of the Bank Holding Company Act Amendments of July 1966.

¹⁰ See Section 2(n) of the Bank Holding Company Act of 1956 as amended by Act of July 1, 1966.

¹¹ There are some advantages in choosing to invest in foreign subsidiaries through Edge Corporations—centralization and a greater degree of control over investments and limitation of responsibility for the liabilities of subsidiaries to the amount of the Edge Corporation's capital.

such investments to banks. Bank holding companies are now able to invest in any company in which an Edge Corporation can invest under Section 25a of the Federal Reserve Act, subject to approval and regulation by the Board. However, the capital and surplus limitations which apply for foreign investments of Edge Corporations and member banks do not apply for bank holding companies.

ACTIVITIES OF SUBSIDIARIES AND AFFILIATES

The staff of the Federal Reserve Board has provided data on the foreign equity investments of the 30 largest U.S. banks, their parent holding companies and their Edge Act and Agreement Corporations (Tables 2 and 4) which give some indication of the pattern of investment by type and the nature of activities of subsidiaries and affiliates. As of year-end 1974, these banks had invested \$1.6 billion overseas of which \$1.1 billion was invested in commercial, merchant and investment banks and trust companies. Information on assets is available only for subsidiaries. Since investments in subsidiaries (\$792 million) are only about half the total invested, the \$23.2 billion in assets stated in Table 4 is a very conservative measure of the size of U.S. banks' holdings overseas.¹²

¹² It is also conservative because it excludes investments made by foreign affiliates unless the affiliate is primarily a holding company in which case the investments of the holding company are listed but not the holding company itself.

TABLE 2.—FOREIGN INVESTMENTS OF 30 LARGEST BANKS,¹ 1969 AND 1974
 [Number of investments in foreign companies; amount invested in millions of dollars]

| Form of ownership | Total: All institutions | | | Banks ² | | | Finance companies ³ | | | Other companies ⁴ | | |
|--------------------|-------------------------|------------|------------------|--------------------|------------|------------------|--------------------------------|------------|------------------|------------------------------|------------|------------------|
| | Number | Investment | | Number | Investment | | Number | Investment | | Number | Investment | |
| | | Amount | Percent of total | | Amount | Percent of total | | Amount | Percent of total | | Amount | Percent of total |
| 1969: | | | | | | | | | | | | |
| Subsidiaries | 82 | 152 | 37.3 | 41 | 106 | 39.7 | 33 | 40 | 35.7 | 8 | 6 | 21.4 |
| Joint ventures | 42 | 86 | 21.1 | 16 | 59 | 22.1 | 22 | 21 | 18.8 | 4 | 6 | 21.4 |
| Minority interests | 321 | 169 | 41.5 | 63 | 102 | 38.2 | 157 | 51 | 45.5 | 101 | 16 | 57.1 |
| Total | 445 | 407 | 100.0 | 120 | 267 | 100.0 | 212 | 112 | 100.0 | 113 | 28 | 100.0 |
| 1974: | | | | | | | | | | | | |
| Subsidiaries | 311 | 792 | 48.4 | 122 | 550 | 49.7 | 156 | 228 | 48.2 | 333 | 14 | 23.7 |
| Joint ventures | 108 | 403 | 24.6 | 48 | 289 | 26.1 | 46 | 110 | 23.3 | 14 | 4 | 6.8 |
| Minority interests | 521 | 443 | 27.0 | 162 | 267 | 24.1 | 191 | 135 | 28.5 | 168 | 41 | 69.5 |
| Total | 940 | 1,638 | 100.0 | 332 | 1,106 | 100.0 | 393 | 473 | 100.0 | 215 | 59 | 100.0 |
| Changes: 1969-74: | | | | | | | | | | | | |
| Subsidiaries | 229 | 640 | 52.0 | 81 | 444 | 52.9 | 123 | 188 | 52.1 | 25 | 8 | 25.8 |
| Joint ventures | 66 | 317 | 25.8 | 32 | 230 | 27.4 | 24 | 89 | 24.7 | 10 | -2 | -6.4 |
| Minority interests | 200 | 274 | 22.3 | 99 | 165 | 19.7 | 34 | 84 | 23.3 | 67 | 25 | 80.6 |
| Total | 495 | 1,321 | 100.0 | 212 | 839 | 100.0 | 181 | 361 | 100.0 | 102 | 31 | 100.0 |

¹ Definitions: Subsidiaries—50 percent or more owned. Controlled affiliates—25 to 50 percent owned. Affiliates—Less than 25 percent owned.

² Banks include commercial banks, merchant banks, investment banks and trust companies.

³ Finance companies include commercial and consumer finance companies, leasing companies, factoring companies, development finance companies and other companies involved in lending money.

⁴ Other includes premises holding companies, investment advisory companies, data processing companies, industrial, commercial and real estate firms.

Source: Federal Reserve Board.

TABLE 3.—FOREIGN INVESTMENTST OF 30 LARGEST U.S. BANKS—PERCENTAGE OF DOLLAR AMOUNTS INVESTED BY TYPES OF INSTITUTIONS, 1969, 1974¹

[In percent]

| Subsidiaries | Banks ² | Finance companies ³ | Other ⁴ |
|------------------------|--------------------|--------------------------------|--------------------|
| 1969..... | 69 | 26 | 3 |
| 1974..... | 69 | 28 | 1 |
| Controlled affiliates: | | | |
| 1969..... | 68 | 24 | 6 |
| 1974..... | 71 | 27 | 1 |
| Affiliates: | | | |
| 1969..... | 60 | 30 | 9 |
| 1974..... | 60 | 30 | 9 |

¹ Definitions: Subsidiaries—50 percent or more owned. Controlled affiliates—25- to 50-percent owned. Affiliates—less than 25 percent owned.

² Banks include commercial banks, merchant banks, investment banks, and trust companies.

³ Finance companies include commercial and consumer finance companies, leasing companies, factoring companies, development finance companies and other companies involved in lending money.

⁴ "Other" includes premises holding companies, investment advisory companies, data processing companies, industrial, commercial, and real estate firms.

Source: Federal Reserve Board.

TABLE 4.—ASSETS, LIABILITIES, AND EARNINGS OF FOREIGN SUBSIDIARIES OF 30 LARGEST U.S. BANKING ORGANIZATIONS, 1974¹

[Amounts in millions of dollars]

| Category | All foreign subsidiaries | | Banks ² | | Finance companies ³ | | Leasing companies | | Other subsidiaries ⁴ | |
|-------------------------------------|--------------------------|----------------------|--------------------|----------------------|--------------------------------|----------------------|-------------------|----------------------|---------------------------------|----------------------|
| | Amount | Percent distribution | Amount | Percent distribution | Amount | Percent distribution | Amount | Percent distribution | Amount | Percent distribution |
| Assets: | | | | | | | | | | |
| Cash and due from banks..... | 6,015 | 25.9 | 5,893 | 29.6 | 111 | 4.1 | 9 | 1.5 | 2 | 2.6 |
| Loans..... | 13,274 | 57.1 | 10,761 | 54.0 | 2,327 | 87.8 | 183 | 30.5 | 3 | 3.8 |
| Other assets..... | 3,949 | 17.0 | 3,256 | 16.4 | 212 | 8.0 | 408 | 68.0 | 73 | 93.6 |
| Total assets..... | 23,238 | 100.0 | 19,910 | 100.0 | 2,650 | 100.0 | 600 | 100.0 | 78 | 100.0 |
| Liabilities and capital: | | | | | | | | | | |
| Deposits..... | 16,395 | 70.6 | 16,395 | 82.3 | — | — | — | — | — | — |
| Capital..... | 1,182 | 5.1 | 906 | 4.6 | 202 | 7.6 | 55 | 9.2 | 19 | 24.4 |
| Other liabilities..... | 5,661 | 24.4 | 2,609 | 13.1 | 2,448 | 92.4 | 545 | 90.8 | 69 | 75.6 |
| Total, liabilities and capital..... | 23,238 | 100.0 | 19,910 | 100.0 | 2,650 | 100.0 | 600 | 100.0 | 78 | 100.0 |
| Memorandum: | | | | | | | | | | |
| Net income..... | 72 | | 59 | | 12 | | 3 | | (2) | |
| Percent of total assets..... | 0.31 | | 0.30 | | 0.45 | | 0.50 | | — | |
| Capital/asset ratio..... | 5.09 | | 4.55 | | 7.62 | | 9.17 | | 24.36 | |

¹ Definitions: Subsidiaries: 50 percent or more owned. Controlled affiliates: 25 to 50 percent owned. Affiliates: Less than 25 percent owned.

² Banks include commercial banks, merchant banks, investment banks, and trust companies.

³ Finance companies include commercial and consumer finance companies, leasing companies, factoring companies, development finance companies and other companies involved in lending money.

⁴ Other includes premises holding companies, investment advisory companies, data processing companies, industrial, commercial, and real estate firms.

Source: Federal Reserve Board.

Table 4 also provides a breakdown of assets and liabilities of foreign subsidiaries by type of activity. It indicates that, as in the United States, almost all of the assets of finance companies are loans and almost all of their liabilities are borrowed funds. They make commercial and consumer loans, do factoring and provide funds for investment. Leasing companies use less than 1/3 of their resources for loans, having the bulk invested in equipment. Their sources of funds are largely borrowings but they do have substantial ratios of capital

to assets. Other subsidiaries are companies which are not in the business of lending money. They include premises holding companies, investment advisory companies, data processing companies, industrial, commercial and real estate firms and even mines, farms and hotels. Capital funds provide almost a quarter of their liabilities.

As the table indicates, only the banking subsidiaries accept deposits. But the available data does not reveal sources or maturities of deposits. It is difficult to determine from this information what proportion of total assets are held by commercial banks as opposed to merchant and investment banks. Most of the liabilities of subsidiaries engaged in commercial banking would be in the form of deposits of individuals, partnerships and corporations with a high proportion of demand deposits. Merchant and investment banks obtain a majority on their funds by borrowing from commercial banks and other financial and nonfinancial institutions. But these borrowings and interbank placements are often termed deposits. The aggregate data on deposits in Table 4 does not indicate what proportion is derived from other banks and it may be that, as is true of foreign branches, funding of U.S. banks' foreign subsidiaries largely is provided by the parent bank network or other banks. It is likely that the foreign branches are major depositors in the parent banks' merchant and investment banking subsidiaries.

Data on the asset side is also inadequate for an analysis of the lending activities of foreign banking subsidiaries. There is no breakdown of loans as between bank and nonbank borrowers, but a high proportion of assets is labeled "cash and due from banks" which, again, is similar to the profile of foreign branches. It is possible, in fact, that the activities of banking subsidiaries overseas differ very little from those of branches except that they have additional powers. The nature of these expanded powers and the reason why—if this hypothesis is correct—U.S. banks would establish banking subsidiaries in areas where they can have or do have branches is provided in the following response by Federal Reserve Board Chairman Arthur Burns to questions submitted by Rep. Wright Patman:

"Underwriting and dealing in securities has become an important activity in foreign affiliates of U.S. banks in recent years with the development and growth of the Eurobond market and to a much lesser extent a Euro-equity market. These affiliates are of two general types: consortium banks in which one or more American banks have combined with European and sometimes Japanese banks; and wholly-or-majority-owned subsidiary "merchant" banks. Among these affiliates, there is substantial variation in the extent and nature of their underwriting activities. The bulk of the business of these consortia and merchant banks is medium-term lending, including the formation of large lending syndicates. In the underwriting area, activity has been mainly confined to Eurobond issues; participation in equity issues has been fairly rare. In Eurobond issues, only a few of these affiliates have been managers or co-managers of issues; the others have been largely among the principal underwriters or in the selling group. Among the more active affiliates in the underwriting business have been Bankers Trust International (a wholly-owned subsidiary of Bankers Trust Company), Manufacturers Hanover Ltd. (a majority-owned subsidiary of Manufacturers Hanover Trust Company) and Western American Bank Ltd. (a consortium controlled by National Bank of Detroit, Security Pacific National Bank and Wells Fargo Bank). No data are available on the extent to which these European affiliates have participated in underwriting syndicates. More recently, interest has been developing in the establishment of similar types of affiliates in other areas, notably in Southeast Asia where local and international money and capital markets are in the process of formation."¹³

¹³ *Economic Report of the President*, Hearings before the Joint Economic Committee, February 20, 1973.

As this description and the data appear to indicate, the international activities of U.S. banks appear to be largely involved with what is now called wholesale banking. In the major banking subsidiaries, as well as in branches, the emphasis is on large scale, medium to long-term credits to nonbank borrowers and relatively large, short-term credits to financial institutions. There appears to be relatively little retail banking activity by arms of U.S. banks in foreign markets other than that which is done in less developed countries.¹⁴ Consumer lending is done mostly through finance companies. A very small proportion of the foreign loans made by overseas offices of branches, subsidiaries and affiliates is supported by private nonbank deposits.

A COMPARISON OF THE OVERSEAS BRANCHES AND SUBSIDIARIES OF THE 30 LARGEST U.S. BANKS

Between 1969 and 1974, the 30 largest banks, their parent holding companies and their Edge Act and Agreement Corporations invested \$1.3 billion or about \$260 million a year in companies overseas. They invested \$839 million in banks during this 5-year period, much of it in merchant and investment banking companies. About 27 percent of the additional funds were used as capital for finance companies. Although U.S. banks have equity investments in more than 1,550 foreign companies and a substantial number of additional offices through branch operations of these companies, it is clear that branches are the preferred form of operation overseas. Table 5 provides a comparison of branches and subsidiaries which indicates that 85 percent of total foreign assets are held by branches and 90 percent of total foreign income is derived from them. The rate of return on foreign branch assets is .50 percent of total assets. As Table 4 reveals, the rate of return on foreign banking subsidiaries of the 30 largest banks is .30 percent, substantially lower than for branches. In 1974, only the leasing companies had a rate of return equal to that of the branches, the return on assets of finance companies being only .45 percent.¹⁵ The comparison also reveals that finance and leasing company subsidiaries have very high capital-to-asset ratios as compared to banking subsidiaries. Branches are not required to have capital since they are part of the parent bank and dependent upon its capital structure.¹⁶

TABLE 5.—INVESTMENTS, ASSETS, AND INCOME OF FOREIGN BRANCHES AND SUBSIDIARIES OF 30 LARGEST BANKS 1974

[In millions of dollars and as percent total]

| | Overseas offices | | Amount invested | | Assets | | Net income | |
|-----------------------------------|------------------|---------------|-----------------|---------------|-----------|---------------|------------|---------------|
| | Number | Percent total | Amount | Percent total | Amount | Percent total | Amount | Percent total |
| Branches..... | 616 | 66.5 | NA | NA | \$132,546 | 85.4 | \$663 | 90.2 |
| Bank subsidiaries..... | 122 | 13.2 | \$550 | 69.4 | 19,910 | 12.8 | 59 | 8.0 |
| Finance company subsidiaries..... | 156 | 16.8 | 228 | 28.8 | 2,650 | 1.7 | 12 | 1.6 |
| Other subsidiaries..... | 33 | 3.6 | 14 | 1.8 | 678 | 0 | 1 | 0 |
| Total..... | 927 | 100.0 | 792 | 100.0 | 155,238 | 100.0 | 735 | 100.0 |

NA—Not applicable.

Source: Federal Reserve Board; compiled by committee staff.

¹⁴ There are, of course, exceptions. One notable exception is Bank of America's subsidiary, Banca D'America e d'Italia, one of the larger private banks in Italy with deposits of \$1,791,683,000.

¹⁵ It should be noted, however, that while the types of assets of foreign branches and foreign banking subsidiaries are comparable, those of finance and leasing companies are not comparable to branch assets.

¹⁶ Some countries do require that the parent provide capital funds in the form of a donation or special segregated accounts. As a ratio to total assets, the amounts which have been required are insignificant.

At year-end 1974, investments in all foreign finance companies were \$473 million or 29.9% of the total and investments in finance company subsidiaries totaled \$228 million or 28.8% of the book value of all subsidiaries. But the assets of finance company subsidiaries (\$2.65 billion) were only 11.4% of the total for all subsidiaries and only 1.7% of the total for branches and subsidiaries. Banking subsidiaries, with \$550 million of capital, have total assets of \$919.91 billion. As already noted, finance companies controlled by these 30 banks provided a higher rate of return on assets than did the banking subsidiaries in 1974, but the rate of return on capital—5.26% for finance companies; 10.72% for banks—was half as great. Since branches are not separately capitalized, the rate of return on capital would have to be based on the capital of the parent bank.¹⁷

The rates of return on assets of branches and subsidiaries are significant in the context of arguments for the necessity of liberalizing the range of activities for overseas offices to make U.S. banks competitive with those in the country in which they are operating. Although branches are restricted to the range of activities permitted U.S. domestic offices, it does not appear that they suffer competitive disadvantages from being forced to reflect U.S. banking structure in this respect.

THE STRUCTURE OF OVERSEAS INVESTMENTS

There were significant changes in the pattern of overseas investment between 1969 and 1974. The number and dollar value of minority holdings as a percentage of the total has declined substantially.

Channels of investment have also shifted. The share of total investments held by Edge corporations dropped from 91.2% in 1971 to 73.1% in 1974. This reflects the fact that much of the new equity investment overseas has been made directly by banks and bank holding companies. These developments have important implications for the management of overseas activities by banks and for their supervision by regulatory authorities as well.

In 1969, only 37.3% of all funds invested overseas by the 30 largest U.S. banks were invested in subsidiaries in which they had a controlling interest. As Table 2 reveals, the share invested in subsidiaries had grown to nearly half (48.4%) in 1974, and about half of all investments in banks (49.7%) and finance companies (48.2%) were in companies in which the banks' held a majority of the stock and exercised managerial control. There was also an increase in the proportion of funds invested in joint ventures in which the individual bank also exercises a substantial degree of control. The growth of joint investments is reflected in data on equity investments in both banks and finance companies.

Minority investments in other companies have increased but, while there has been a four-fold increase in the amount invested in all institutions, investments in nonfinancial companies have only doubled and remain below \$60 million. Some of this amount reflects equity participations undertaken by the banks' subsidiaries overseas.

During the same period that banks shifted much of their new equity investments to holdings in foreign companies in which they exercise control, they also indicated a preference for direct investment. As

¹⁷ The Committee staff has compiled data on capital funds of the 20 largest banks but does not have this information for the 30 banks in the Federal Reserve Board series on overseas investments.

noted above, a 1966 amendment to Section 25 of the Federal Reserve Act had allowed banks to invest directly in foreign banks. In 1971, 14 banks had utilized this authorization and had interests in 63 foreign banks (see Table 6). By 1973, 21 banks had made direct equity investments in 198 institutions.

TABLE 6.—OVERSEAS INVESTMENTS OF BANKS, BANK HOLDING COMPANIES, AND EDGE AND AGREEMENT CORPORATIONS, DEC. 31, 1971, DEC. 31, 1973

| | 1971 | | 1973 | |
|--|--------|------------------|--------|------------------|
| | Number | Percent of total | Number | Percent of total |
| Banks with overseas investments..... | 14 | 15 | 21 | 14.0 |
| Bank holding companies with overseas investments..... | 10 | 11 | 28 | 18.5 |
| Edge and agreement corporations with overseas investments..... | 70 | 74 | 102 | 67.5 |
| Total..... | 94 | 100 | 151 | 100.0 |
| Overseas investments of banks..... | 63 | 4.5 | 198 | 11.2 |
| Overseas investments of bank holding companies..... | 60 | 4.3 | 280 | 15.8 |
| Overseas investments of edge and agreement companies..... | 1,267 | 91.2 | 1,297 | 73.1 |
| Total..... | 1,390 | 100 | 1,775 | 100.0 |

Bank holding companies have made an even more dramatic entry into overseas activities. The 1970 amendments to the Bank Holding Company Act permitted one bank holding companies to make equity investments overseas in companies in which Edge Act corporations can invest but without the statutory limits on such investments in relation to capital that apply to banks and Edge corporations. This liberalization of investment authority was utilized immediately. One year after enactment, 10 bank holding companies had made equity investments in companies engaged in international activities. Between 1971 and 1973, the number of bank holding companies with foreign affiliates rose to 28 and the companies in which they held equity interests grew to 280.

As noted above, some of the 1973 increase reflects data on holding companies in which banking is not the principal activity—for example the King Ranch and the Baldwin Piano Company.¹⁸ Nevertheless, the increase in equity investments by one bank holding companies in which the bank is the principal subsidiary has been very significant. The number of equity investments made by the largest one bank holding companies indicates the importance of this channel. The 1970 amendment provided a new avenue for overseas growth for several banks who were up against the statutory limit on new equity investments through the bank and its Edge Corporations. Since there has been relatively little addition to their capital, these banks can be expected to continue to expand their overseas holdings through investments by the holding company.

As Table 6 indicates, Edge corporations retain their preeminent position as the principal vehicle for overseas equity investments. But the growth of equity investment through the Edge corporations has slowed to a virtual standstill. Between 1971 and 1973 only 4 additional Edge corporations made equity investments in foreign

¹⁸ The former owns ranches in a number of foreign countries and properties in the United States as well, while the latter owns a 73% interest in C. Bechstein, another important piano company in Germany.

companies and only 30 new companies were acquired or established by all the corporations out of a total of 385 foreign companies acquired or established during the 2-year period.

An increase in foreign equity investment through bank holding companies has important implications for the structure of the banking system and for bank regulation. The activities undertaken overseas by holding companies are not restricted to those closely related to banking as are domestic activities. As the discussion below of acquisitions by holding companies in Canada indicates, the dike which separates the land of banking from the sea of commerce has sprung a leak. A regulatory strategy to deal with the problems which may emerge out of the potential for conflicts of interest in this area has not yet been devised. The fact that there is no statutory limit on expansion of overseas activities by bank holding companies in relation to capital means that regulatory authorities—the Federal Reserve Board at present—have a free hand in establishing a regulatory policy in this area which will govern future activity and define the future role of the holding company in the banking system. A former Federal Reserve Board Governor, Andrew Brimmer, has recommended an even more liberal attitude toward holding company activity.¹⁹ In a recent joint paper with Dr. Brimmer, a senior member of the Board's staff appears to disagree with this approach.²⁰ The direction that will ultimately be taken by regulatory policy in this area is not clear.

Meanwhile, other managerial and regulatory problems arise because of the pattern of indirect investment in overseas companies revealed in Charts I through V. Banks which hold investments through Edge corporations do so at arms length. The Edge corporation is itself a subsidiary and presumably offers a degree of protection to the bank in that whatever problems occur in subsidiaries and affiliates of Edge corporations infringe on the capital first of the subsidiaries and then of the Edge and not on that of the parent bank itself. On the other hand, examples of ways in which banks have handled problems in subsidiaries do not indicate a willingness to fail in order not to impair the capital of the parent. Frequently, the bank considers that any reflection on its name as a result of failure to support a subsidiary would be more costly in terms of market reaction than would even a substantial decline in profits as a result of the need to support a troubled subsidiary. Meanwhile, the Bank of England has obtained agreements from U.S. banks that they will stand behind subsidiaries and consortia in London and in several cases substantial infusions of funds by U.S. banks have been necessary and were supplied.

But if the arms-length pattern of investment through Edge corporations does not have the advantage of protecting the parent, what other advantage can it be said to have? It is, of course, a way of leveraging overseas activities since investments through subsidiaries of the bank or its Edge corporation do not count against statutory restrictions on investments in relation to the bank's or corporation's capital.

¹⁹ Andrew F. Brimmer, "Perspectives on Foreign Activities of American Banks," testimony before the Subcommittee on Financial Institutions Supervision, Regulation and Insurance of the Committee on Banking, Currency and Housing, December 5, 1975.

²⁰ Andrew F. Brimmer and Frederick R. Dahl, "Growth of American International Banking: Implications for Public Policy," paper presented before American Economic Association and the American Finance Association, December 28, 1974.

But placing a subsidiary such as an Edge corporation between a bank and, for example, a major merchant banking subsidiary in London may result in some loss of managerial control. Interposing a number of additional subsidiaries as well between the bank or holding company and subsidiaries or affiliates presents a very complicated organizational structure as the charts reveal.

CHART II

EDGE CORPORATION LINKS TO SUBSIDIARIES AND AFFILIATES DEC. 31, 1973

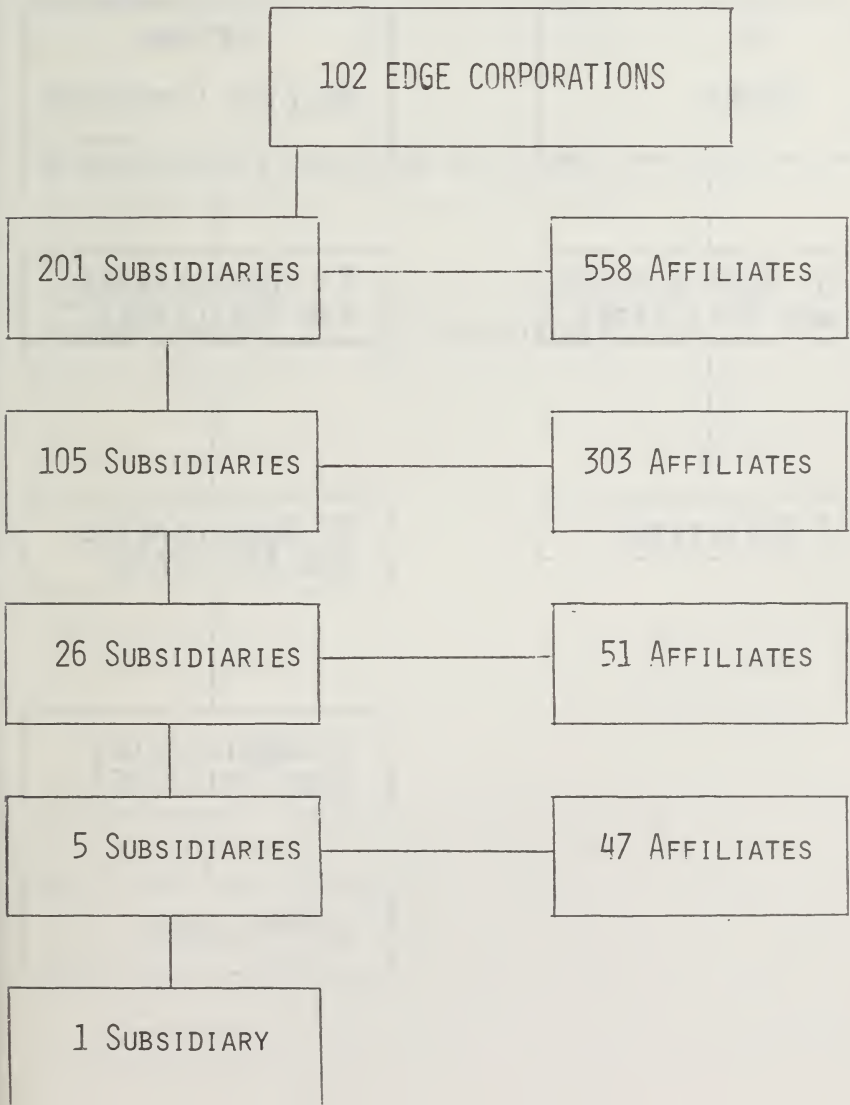


CHART III

BANK AND BANK
HOLDING COMPANY
LINKS TO SUBSIDIARIES
AND AFFILIATES, DEC. 31, 1971

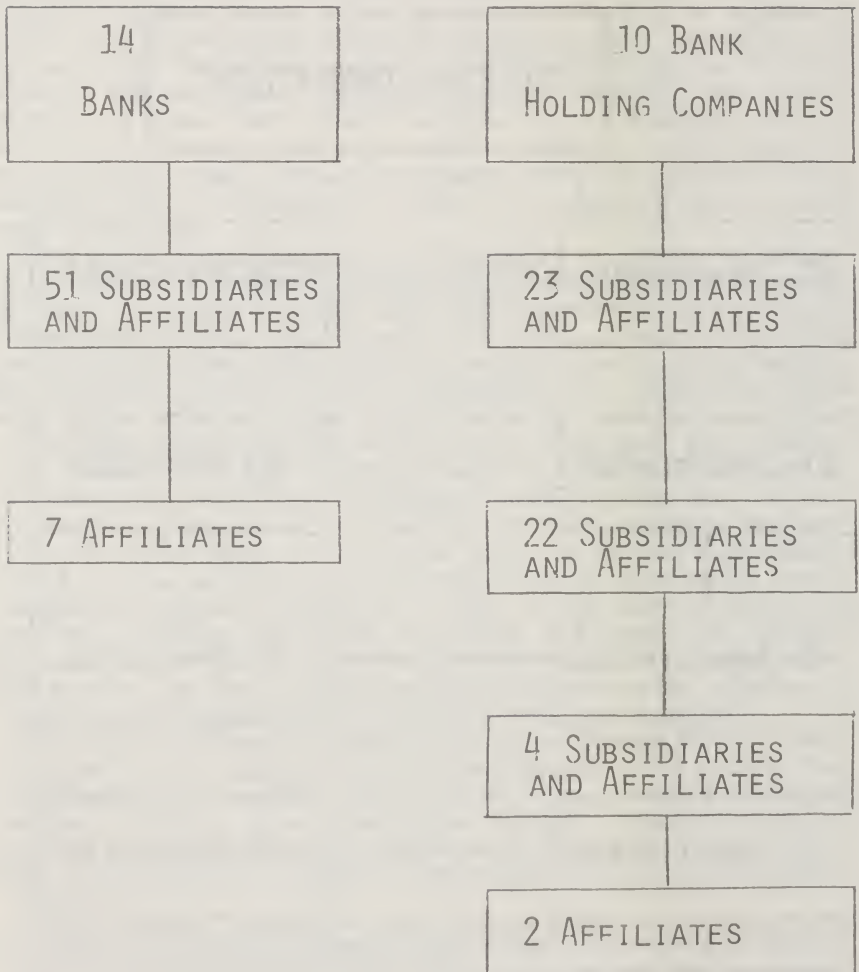


CHART IV

BANK LINKS TO SUBSIDIARIES AND AFFILIATES, DEC. 31, 1973

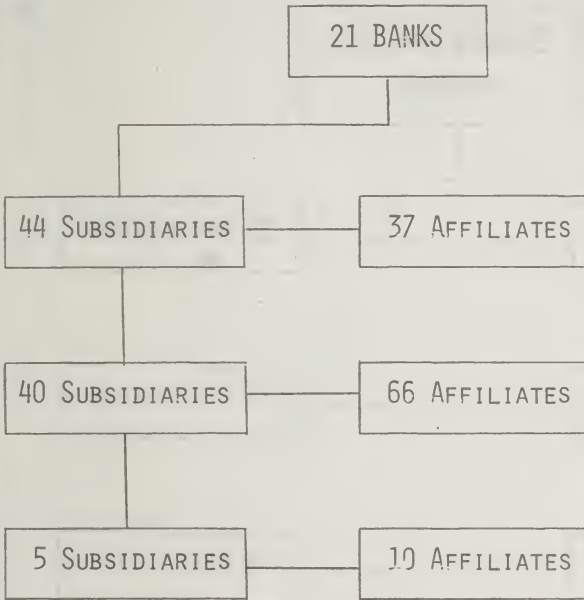
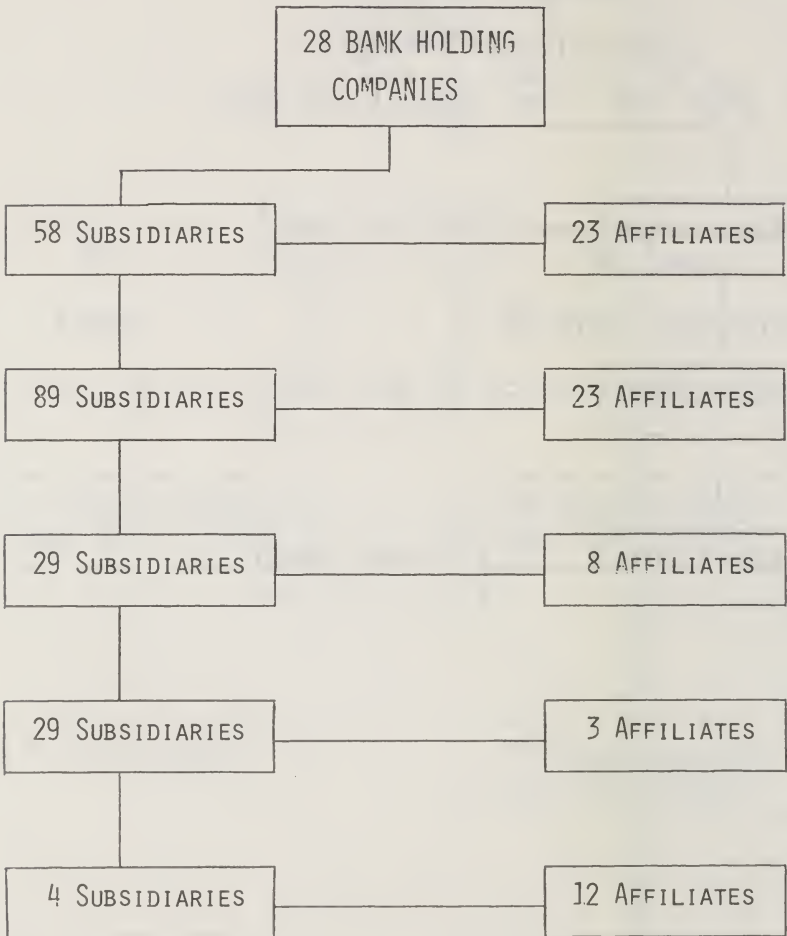
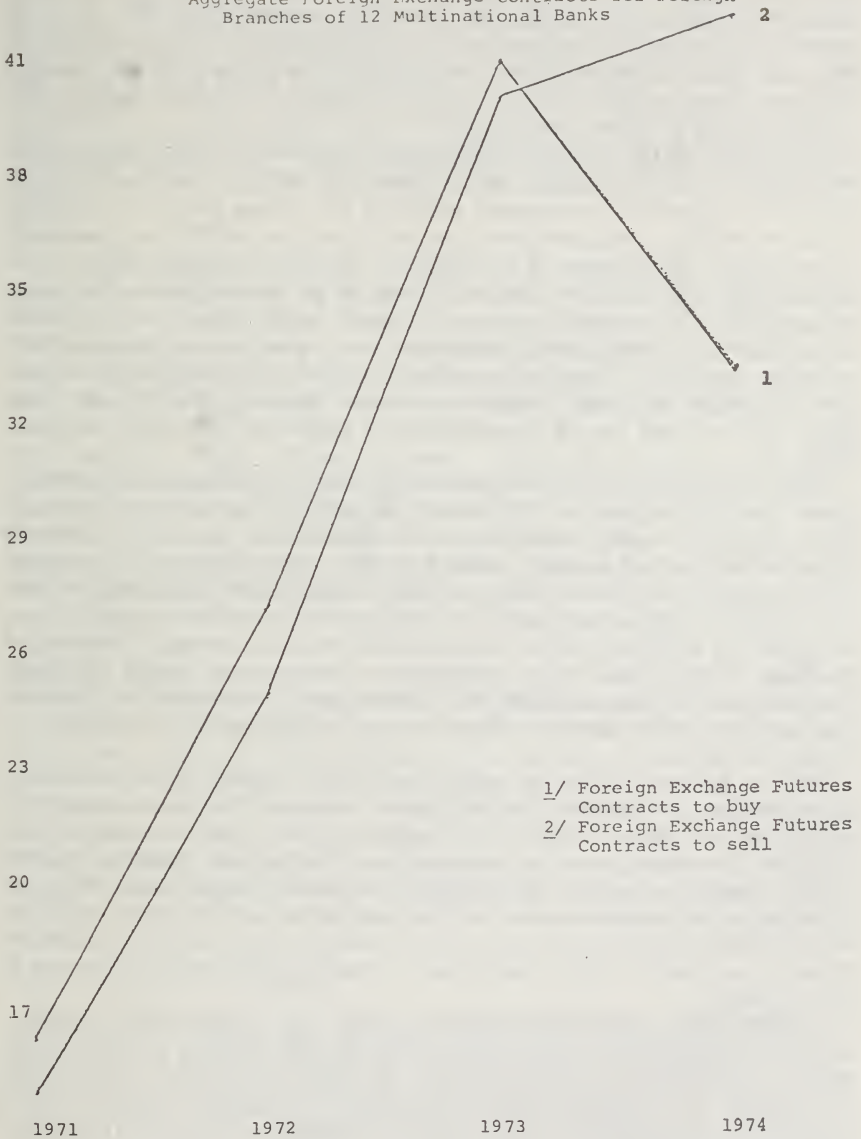


CHART V

BANK HOLDING COMPANY LINKS TO SUBSIDIARIES AND AFFILIATES
DEC. 31, 1973



Aggregate Foreign Exchange Contracts for Foreign
Branches of 12 Multinational Banks



In Chart II, for example, the last block on the left is a subsidiary of a subsidiary of a subsidiary of a subsidiary of an Edge Corporation which is a subsidiary of a bank. Moreover, it should be noted that the 47 affiliates in the last block on the right are equity holdings of 5 companies which are subsidiaries of subsidiaries of subsidiaries of subsidiaries of Edge Act Corporations. This chart lists a total of 1,297 companies in which U.S. banks hold equity interests but in which interest is not directly held by the bank. While 959 of these companies are affiliates not directly controlled by the banks or their U.S. based Edge Corporations, 338 companies are subsidiaries for which the banks may assume some degree of responsibility. That

105 companies with equity investments in 303 affiliate and 26 subsidiary companies are subsidiaries of subsidiaries of Edge Corporations and reflect ownership and control at a level which is 3 times removed from the bank makes it almost certain that the bank does not exercise a degree of managerial control which is consistent with its liability for the soundness of these companies.

The policy of permitting subsidiaries to invest in other subsidiaries which invest in turn in other subsidiaries and affiliates and so on down the line to a level of investment which is five times removed from the bank or holding company does not enhance the ability of the bank to maintain the degree of managerial control necessary if it is to accept responsibility for the activities of all subsidiaries. But such responsibility is necessary since even small banks like Herstatt which are engaged in international activities can precipitate crises in international markets if they are poorly managed or inadequately supervised. Foreign exchange losses in overseas offices of major banks also illustrate the need for close management and supervision by the home office.

The pattern of indirect investment through subsidiaries also creates problems with respect to regulation. What the charts do not reveal is that, in many cases, investments which are held indirectly through subsidiaries are not always located in the country in which the subsidiary parent is located. Thus, a New York based Edge corporation of a California bank may have a subsidiary in Luxembourg which owns a subsidiary in Paris. In one case, an important overseas subsidiary of an Edge corporation has an interest in a company in which the Edge corporation also has an interest. The company is located in Switzerland and is a fairly large holding company which operates a number of banks in Africa.

Such a pattern raises questions as to the degree of responsibility of regulatory authorities in any given country for the activities of individual companies and the degree to which the activity of the individual company can be isolated from that of all other companies in the chain, including ultimately the parent bank itself. Another question which arises relates to the amount of information available to regulatory authorities in any given country concerning the activities of other companies which own or are owned by the company located in that country.

Finally, how much responsibility should U.S. regulatory authorities accept for the entire chain of relationships and, if they do accept primary responsibility, what problems do they encounter in exercising the degree of regulation and supervision necessary to ensure that management is adequate to protect the capital of the parent bank or holding company?

GEOGRAPHIC DISTRIBUTION OF OVERSEAS INVESTMENTS

It is difficult to evaluate the pattern of distribution of foreign investment because there is no break-down of either assets or amounts invested by country or geographic region. In terms of numbers of investments by country and area, the largest concentrations are in Europe and the United Kingdom (about 36% of the total number), Asia and Latin America. There are more investments in England (214) than in any other country. Two other English speaking countries

also have substantial shares of the total number of foreign investments of U.S. banks—Canada (95) and Australia (90). Other countries which have proved attractive for investment are Brazil (95), France (88), Luxembourg (50), Belgium (44), the Bahamas (41), Hong Kong (38), Germany (33), Italy (33), Switzerland (33), Argentina (32), Colombia (31), and Mexico (30). Some of the reasons why U.S. banks have established subsidiaries and affiliates in individual countries and areas and the form these investments have taken are discussed below.

England

Very few of the companies in which U.S. banks hold interests are engaged in commercial banking since these activities are handled by the banks' branches which are also largely concentrated here. Most of the larger banks have a merchant banking subsidiary in London—there are a total of 22—and a number of regional banks are affiliated with the more important consortia banks—Western American (Security Pacific, Wells Fargo and National Bank Detroit), Atlantic International Bank (Manufacturers National Bank of Detroit), London Multinational Bank (Northern Trust Co., Chemical Bank), London Interstate (Maryland National, Indiana National, First National Atlanta, Mercantile Trust), Brown Bros. Harriman and International Banks Ltd. (Brown Bros. Harriman and Pittsburg National), Rothschild Intercontinental (Seattle—First National).

Although merchant banks constitute their principal activity, U.S. banks are engaged in a wide range of other activities in England through investment banks, securities and commodities brokers, leasing, factoring, trust, real estate, and financial services companies, etc. As in other countries, there is some involvement in commercial enterprises which would be illegal in the United States. In England, most of the activity is conducted by one bank—Bankers Trust Company—which at year-end 1973 had 24 investments in nonfinancial companies including manufacturers of textiles, steel, boats, paint, musical instruments, electric equipment and companies engaged in construction, shipping and providing leisure and entertainment services. The average amount of the bank's investment in these companies was 23%.

Australia and New Zealand

Since foreign involvement in commercial banking is prohibited in Australia, U.S. Banks do not have branches or commercial banking subsidiaries. The more important of the companies which they own are engaged in merchant banking, financial, leasing and real estate. There is also a substantial number of minority investments in nonbanking companies engaged in mining, manufacturing and agriculture. Many of the larger American banks had established or acquired interests in companies in Australia by 1973 and it was an important area for investment in 1971 as well. But a number of the holdings listed are owned by King Ranch, a U.S. bank holding company which owns the Kleberg First National Bank of Kingsville, Texas. This unusual bank holding company has holdings also in Argentina, Venezuela, Brazil, Morocco and Spain.

Canada

Canada is another country which excludes nonnationals from participation in the domestic banking system. Thus U.S. Banks are en-

gaged in a wide range of financial activities other than commercial banking. There are a larger number of American banks with investments in Canada than in any country, and they exhibit a wider range by size and location of the home office as well. Bank holding companies have acquired interests in a number of commercial firms in Canada—and in Mexico as well—and the threat of erosion of the separation of banking and commerce within the U.S. economy is very real since these two economies are so closely related to the American economy.

As an example of the problem the bank holding company which owns the Jefferson Trust and Savings Bank of Peoria, Illinois also wholly owns Waterloo Metal Stampings Ltd., a Canadian company, owns a manufacturing subsidiary in Juarez, Mexico and has a 50% interest in a manufacturing company in England. It is possible that the products of these companies are not sold in the United States and that financing their importation or making loans to companies to build up inventories in these products or to consumers to purchase them are not within the realm of probability and therefore present no problems with respect to conflict of interest. But, clearly, if such a trend were to continue—if bank holding companies continue to invest in manufacturing, mining and other commercial enterprises—such conflicts of interest will arise and in effect repeal those statutes which it was actually the intent of the 1970 Bank Holding Company Act amendments to reaffirm.

Continental Europe

The largest number of investments by U.S. banks in Continental Europe are in France. The principal focus is on merchant and investment banking, and Paris is the center for these activities for several regional banks. Real estate companies are another significant area of investment with other investments in a wide range of financial activities.

Luxembourg is a center for Eurobond activity and affiliates which U.S. banks have established there reflect this activity. There are a large number of merchant and investment banks as well as bond clearing associations, holding companies and other finance companies. A substantial number of the larger American banks have investments in Luxembourg because it is an important international financial center and because their activities there are virtually unregulated. Most of their commercial banking activity is done through branches rather than subsidiaries. Belgium is also an important international financial center in which a substantial number of the 20 largest U.S. banks have established or invested in nonbanking financial companies including securities and commodities, insurance and real estate leasing companies. In Switzerland, by contrast, the formation of branches has been discouraged as has participation in domestic securities activity and, as a result, U.S. banks have established a number of commercial banking subsidiaries. They are, however, active in managing off-shore, mutual funds and in other financial and nonfinancial activities such as factoring, leasing and managerial services.

The principal investments of U.S. banks in Germany are in commercial and merchant banks but there are also some important holdings in manufacturing firms held as in Canada through the banks' holding companies. Recently the three largest U.S. banks—Bank of

America, First National City Bank and Chase Manhattan Bank—have established retail finance companies and introduced consumer installment financing to the German economy. While German authorities did not intervene or openly discourage the innovations, it is clear that they have been less than enthusiastic and perhaps apprehensive about the nature of changes which will occur in credit markets as a result. Only the largest U.S. banks are active in Spain and Italy. They are engaged in some commercial banking but most of their investments are in finance companies of various types with a fair amount of real estate activity in Italy. In the Netherlands, U.S. banks' subsidiaries and affiliates are largely engaged in financial activities while in Ireland they hold investments in merchant banks and in commercial companies.

Latin America

The dominant position among foreign banks held by a few of the larger U.S. banks in a number of Latin American countries reflects the fact that three banks—Chase Manhattan Bank, First National City Bank and the First National Bank of Boston—have been active in Latin America for several decades. They have substantial branch networks as well as subsidiaries and affiliates engaged in a wide range of financial and nonfinancial activities. In a few countries—Colombia, Venezuela, Costa Rica and Ecuador—a number of other banks are also active and, again, there is a wide range of activities. Investment banks seem the dominant institutional form but not enough information is available to describe the business of these banks.

Clearly, U.S. banks play an important role in the economies of countries such as Brazil and Argentina where they have both numerous branches and subsidiaries and in the economies of other Latin American countries as well. They have introduced U.S. banking techniques—credit cards, for example—and provide a wider and more sophisticated level of financial services than might otherwise be available. However, considerations of either benefits or injuries accruing to other economies through the activities of U.S. banks overseas are beyond the scope of this study. The principal concern is the impact of these activities on the U.S. economy and banking system. The pattern of investment in Panama and Mexico are therefore of greater concern here—Panama because it is an unregulated banking market and tax haven and the concentration of merchant and investment banks and finance companies reflect activities similar to those in other centers such as London, Luxembourg and Hong Kong; Mexico because, like Canada and Australia, it is a major area for U.S. bank investment and one in which local authorities prohibit commercial banking activity. Very little of the activity of U.S. banks in Mexico is of a financial nature other than lease financing. Most of the companies in which they have holdings are engaged in manufacturing services and consulting and real estate.

The Caribbean

Investments by U.S. banks in companies in the Bahamas and Cayman Islands reflect patterns of activity like those of the "shell" branches there. The merchant and investment banks, nominee and holding companies are adjuncts to the banks' Eurodollar business. As is the case with the branches, there is wider participation by smaller, regional banks here reflecting lower costs as well as tax advantages.

It is possible that the merchant banking activity in Jamaica indicates that it may also serve as an adjunct to the Eurocurrency market but more conclusive evidence is not available.

Banks which are active in Puerto Rico are engaged in activities which might be appropriate to bank holding companies in the United States. Though not necessarily, because of its relationship to the United States or by design, activity by U.S. banks in Puerto Rico does not involve commercial banking. Banks from the states were discouraged from forming branches by Puerto Rican authorities because of what was termed "over banking" in the area. Their subsidiaries and affiliates are engaged in personal credit, finance, mortgage finance, real estate, etc.

Asia

Thailand, the Philippines, Indonesia and Malaysia are the less developed countries in Asia in which U.S. banks have substantial investments. Most of the investments have been made by the larger banks. Their primary holdings are in investment finance companies with a number of small holdings in nonfinancial companies. There is notably very little investment by U.S. banks in India but substantial investments in companies in Hong Kong and Singapore, which are centers of the Asia dollar market. As in London, Luxembourg, Panama and the Bahamas, there are merchant and investment banks, leasing companies and other financial operations which reflect the principal activities in international financial markets. As might be expected, more banks from the West Coast are represented here than in London or Luxembourg.

There are fewer subsidiaries and affiliates of U.S. banks in Japan than there are U.S. bank branches and relatively few banks are represented. As the joint investments of Chase Manhattan with Mitsubishi Bank and First National City with Fuji Bank indicate, a close relationship with a Japanese bank may facilitate entry. The activities of the companies in which U.S. banks hold investments are not directly involved with banking. Leasing is the dominant activity.

The Mid-East and Africa

U.S. banks have significant activities in only a few countries in these areas. They have a number of investments in financial companies in Lebanon, some investments in banks in Turkey, Morocco and Iran and in agricultural companies in Iran as well. The large number of investments in Israel are largely those of a single bank—First Pennsylvania Bank and Trust Company—in a wide range of banking, investment and finance companies.

In Africa, U.S. banks are most active in Liberia where they have both branches and subsidiaries and affiliates. While their branches do commercial banking, the companies in which they have invested are engaged in general and specialized (transportation) finance. U.S. banks also have branches in Nigeria but only Bank of America has an important investment there, in a commercial bank. The large banks have had minority investments in companies in the Ivory Coast for some time but there has been little growth in activity.

Interest in Zaire, on the other hand, is relatively new. U.S. banks have no branches there but have made substantial loans within the country and have investments in companies engaged in commercial,

development and investment banking. Meanwhile, there has been relatively little growth in investments in South Africa. The companies in which First National City Bank has interests have been in operation for more than a decade.

The United States

The listing under the United States is of subsidiaries and affiliates which, for the most part, are engaged only in international activities. A number of these were organized in Delaware during the period in which the Voluntary Foreign Credit Restraint Program was in effect as a means of offsetting the effects of the program on banks' international business without undermining the intended restraint on dollar outflows. Funds loaned overseas by these corporations were excluded from VFCR guidelines if matching funds were obtained by the corporations from overseas sources. Other companies on the list reflect the growing involvement of bank holding companies in international activities and PEFCO reflects policies to encourage U.S. exports.

SUMMARY AND RECOMMENDATIONS

The analysis of U.S. banks overseas investments indicates that they do not necessarily use this avenue of activity as a means of entering into retail banking operations in the domestic markets of individual countries. The bulk of the activity of foreign subsidiaries and affiliates involves wholesale banking and is conducted with a latitude which is not permissible for U.S. banks in domestic operations or through their foreign branches. The largest banks are able to mingle commercial and investment banking activities overseas to a degree which, given the increased interrelationship between domestic and international markets, threatens to erode U.S. restrictions in this area. It is possible that this latitude gives the large banks substantial competitive advantages over smaller banks in dealing with multinational companies.

Meanwhile, foreign branches are the preferred form of foreign activity and while they are restricted to activities permissible to the parent bank in the United States, their operations are substantially more profitable than that of banking and finance subsidiaries overseas. A policy which would gradually impose on subsidiaries and affiliates restrictions governing the range of activities which apply to the foreign branches would not be unreasonable or overly onerous. Support for this recommendation is offered by Richard M. Cummings, Executive Vice President, National Bank of Detroit:²¹

Support for this recommendation is offered in the following response by Richard M. Cummings, Executive Vice President, National Bank of Detroit, to questions submitted by Congressman Fernand J. St Germain following Mr. Cummings' appearance before the Subcommittee on Financial Institutions Supervision, Regulation and Insurance, December 5, 1975:

²¹ Response to questions submitted by Congressman Fernand J. St Germain following Mr. Cummings' appearance before the Subcommittee on Financial Institutions Supervision, Regulation and Insurance, December 5, 1975.

A U.S. bank's branch in a foreign country is limited in its operating activities to the banking laws of both the United States and the branch's host country. Wherever there is direct overlap, the most restrictive, of course, governs. Though style varies somewhat worldwide, the basic practice of international commercial banking is sufficiently common to accommodate traditional U.S. bank overseas expansion via direct branches or, where branching is not permitted, through controlled banking subsidiaries. Since financial interdependence requires there be no ambiguity with regard to parental responsibility for overseas banking activities, whether branch or subsidiary, similarity of regulation is essential.

The desire of U.S. banks to enter domestically and internationally into various financial activities heretofore non-traditional by U.S. banking standards, is well recognized. And the "need" to compete fully across the board with indigenous banks in foreign countries is a convenient but not persuasive argument. It seems to me that the extent to which non-bank activities are permitted, whether in the U.S. or abroad, depends not merely upon a bank's capital, experience and management, but more importantly on effective and realistic "severability"—i.e., the extent to which non-bank operations would be permitted to encounter problems without serious consequence to the principal bank. In my opinion, mere geographic, physical, or corporate separation does not insure severability.

It is my view that restriction of international activities of U.S. banks, both branch and banking subsidiary, to those generally permissible domestically would not create any unusual or significant disadvantages to institutions in servicing their customer requirements.

The structure of overseas investment reflects successful efforts on the part of banks to evade statutory restrictions on the amount of investment overseas in relation to capital. Investments by foreign subsidiaries in additional subsidiaries made it possible to expand the number of foreign companies within the parent bank network beyond the amount permissible through direct investments of the bank and its Edge corporations. The 1970 amendments to the Bank Holding Company Act created a statutory loophole which has allowed holding companies to invest in the same range of activities permitted Edge Act corporations but without restrictions on the amount invested in relation to capital.

Between 1971 and 1973, new foreign investment occurred largely through holding companies and banks as opposed to Edge corporations. In 1974, questions of capital adequacy arose in a number of cases involving applications for new investment overseas. Obviously, the amount of investment in relation to capital is a major consideration and efforts to frustrate statutory restrictions on the level of investment by banks and Edge corporations should be discouraged by the regulatory authorities. Moreover, Congress should consider adding a restriction on the amount of investment by bank holding companies in overseas companies in relation to capital.

In addition, it would seem reasonable to suggest that regulatory policy be developed which would discourage investments by foreign subsidiaries which place important companies at a distance from the parent bank in terms of financial responsibility and managerial involvement. Certainly, indirect investment which involves a chain of ownership across national boundaries should be discouraged. U.S. banks and U.S. regulators which supervise those banks must assume responsibility for assuring that subsidiaries are managed so that they do not endanger parent bank capital. This may require more direct involvement by the parent bank in the affairs of foreign companies which it controls.

CHAPTER 4

FOREIGN BANKING LAWS AND REGULATIONS GOVERNING OVERSEAS OPERATIONS OF U.S. BANKS*

Appendix B summarizes the banking laws of foreign countries as they relate to the overseas operations of U.S. banks. It is followed by additional information on the laws of selected countries provided by the Congressional Research Service.

This compilation does not include information on socialist countries where U.S. bank activity has been limited and where there is no available body of law pertaining to U.S. bank entry and operations. The overwhelming majority of the countries that are included in the chart allow some form of U.S. bank entry. Only Mexico and Sweden prohibit foreign bank participation in all financial institutions.

Seven other countries no longer allow foreign bank entry but allow banks which are already active in the countries to continue to operate on a limited basis. Chile, Peru and Columbia, as members of the Andean Common Market, comply with the Cartagena Agreement which precludes entries of additional foreign banks but allows new branches and affiliates of those already operating in these countries. The agreement also provides that a majority interest in all banks be controlled by nationals as of June 30, 1978. The most restrictive among these countries is Chile where all foreign banks were purchased by the government between 1971 and 1973. The government presently allows foreign banks to maintain representative offices with no authority to accept deposits or make loans. Peru also prohibits entry but allows foreign bank participations of up to 20% in affiliates which existed prior to nationalization. However, access to the savings market and services by banks with foreign affiliation is restricted.

Venezuela is another Latin American country which prohibits foreign entry into the banking system but it makes an exception for banks from other Latin American countries. It does permit foreign banks to establish agencies and non-banking operations. Existing foreign banks cannot open new offices or increase the size of their activities. They are further restricted in bond issues, foreign exchange operations, and access to savings deposits. Other developing countries which have curtailed foreign bank entry are Malaysia and the United Arab Emirates. Malaysia is granting no new licenses. The United Arab Emirates have frozen new bank entry for a two-year period.

Two countries with close ties to the United States allow entry by United States banks in financial institutions other than commercial banking. In Australia, foreign banks may engage in insurance and merchant banking business if they can demonstrate a benefit to the Australian economy. Canada allows foreign banks to own financial institutions which accept deposits but they may not call themselves banks. One hundred eighty foreign banking entities hold \$1.8 billion

*Robert L. Wills assisted in compiling the data for this study and wrote Chapter 4 summarizing foreign banking laws and regulations governing overseas operations of U.S. banks.

in deposits in Canada. Foreigners are permitted to hold minority interests in Canadian banks if ownership is limited to 10% by an individual banking group and 25% by all foreign banks. Canadian banks are allowed to accept deposits of U.S. residents although the lending of these funds is restricted. U.S. deposits have varied between 11% and 46% of total deposits in Canadian banks.

Eleven other countries allow U.S. banks entry but impose substantial restrictions on their activities. Columbia, Egypt, Costa Rica and Spain restrict foreign banks to minority participation in commercial banking. Argentina, Hong Kong and Singapore restrict operations to a particular market. Banks operating in Argentina must stay in Buenos Aires. Since 1965, foreign bank entry to Hong Kong has been restricted to the export market. Similarly entry to the domestic market in Singapore is restricted but entry to the Asian Currency market through that country is encouraged. Brazil, Greece, Japan and Taiwan impose restrictions which discourage but do not prevent full entry. Brazil requires directors to be Brazilian and restricts branching within the country. Greece requires the importation of \$10 million of capital for each new branch. In Japan, new offices are not prohibited but are virtually impossible to obtain. The Republic of China limits banks to a single office.

The thirty-two other countries covered by the Congressional Research Service study are open to entry by U.S. banks but the organizational forms allowed for banks varies widely. Twenty-three countries allow any form of organization. Seventeen countries require that the banks be locally organized corporations. Of these, five countries, described above, allow only affiliate ownership. In contrast, the Cameroons requires that foreign participation account for over one-half of registered capital for the foreign owned company. Japan and Nicaragua allow foreign entry only in the form of branches. Other countries allow some combination of branches, agencies, and representative offices which limits the responsibility of the central bank for insuring deposits.

Once they are domiciled, treatment of foreign banks is generally equitable. Thirty-nine countries have no discriminatory treatment with regard to access to financial services, interest rates, lending, or reserve requirements.

Thirty-one countries have no discriminatory restrictions on branching, accepting deposits, or exchange operations. Full involvement in trust activities is allowed in thirty-two countries and limited participation in this market is allowed in another seven countries. Underwriting by foreign banks is unrestricted in twenty-eight countries and allowed to a limited extent in eight more.

In most cases restrictions on foreign bank activities are designed to insure a positive impact on the nation's economy. Some countries, i.e., the Bahamas, the Cayman Islands, Jamaica and several other developing countries, are attempting to benefit from the absence of restrictions and a high volume of international activity. Other countries, notably Greece and the Cameroons, attempt to offset loss of ownership by insuring an inflow of capital. In Greece it is noted that 10% of commercial banking activity is controlled by ten foreign banks. Countries with markets which are closely tied to the United States have taken measures to limit or control operations of U.S. banks. In

Asia, U.S. bank activity is restricted in major centers of U.S. investment such as Hong Kong, Singapore, Japan, and Taiwan. Latin American countries are the most restrictive. Brazil requires bank directors to be residents and restricts profit remittances.

Foreign banks are examined by local authorities in all countries. But supervision from the standpoint of examinations is virtually nonexistent or far inferior to that in the United States as the Comptroller's Office noted in its response to the FINE Questionnaire. The Bank of England does not examine domestic or foreign banks but requires that monthly financial statements be submitted and that foreign banks be in a position to report capital structure and assets if they are requested to do so.

CHAPTER 5

SUPERVISION AND REGULATION

In the description of the extraordinary growth of international activities of U.S. banks, it was noted that overseas expansion was applauded and facilitated by regulatory authorities. The following colloquy between James J. Saxon and Senator Jacob Javits in February 1962 is one of several examples that could be provided as illustration:¹

Senator JAVITS. Could you let us know whether you have any views or ideas about the way in which the banking structure of the country could help in our struggle in the world today?

I have heard it said, for example, that our banks are not as oriented to lending for purposes of development abroad and encouraging our American companies to move out abroad in the fields of either production or technical assistance or exports as they might be; that this interest is confined to some of the great institutions in the major centers; and that as far as the rest of the country is concerned it is practically dormant through lack of education, lack of orientation, and lack of interest.

Mr. SAXON. I believe we need more education and more purposeful efforts by the authorities on a sound, sane basis to amplify the participation of the American banking system abroad, particularly in the light of the enormous expansion of the Common Market.

I foresee the day, perhaps not 15 years from now, when the resources of the large banks of the country now operating in the foreign area will be doubled on account of such operations.

In other words, what I am trying to say is that banking resources committed abroad will be very substantial in relation to total resources.

It is a peculiar reflection on our unique banking system in this country that we have today only five banks which are major participants in the world finance—the Morgan Guaranty Bank, the Chase Manhattan Bank, the First National City Bank of New York, Bank of America, and the First National Bank of Boston.

But this about covers the entire reach, and it is a very surprising reflection, I think, on the extent of U.S. participation in this growing area, that this richest and greatest of all countries should even at this stage have such a limited participation.

I think this participation inevitably must grow substantially, and one of the purposes of this inquiry is to see if by changes in law and changes in administrative procedure and policies the activity of more banks in this area can be properly expanded."

Senator JAVITS. Is it the clear implication of your view then that you will, as far as you can within the ambit of your authority, seek to forward that concept—greater participation by the American banking system and a moving outward of our Nation's economy throughout the world?

Mr. SAXON. Yes, sir.²

As this exchange indicates, international operations of U.S. banks were viewed by some as, in effect, instrumentalities for implementing U.S. international policy objectives. Whatever the merits of utilizing the banking system in achieving these objectives, it is clear that a specific program for facilitating the expansion of U.S. banks' overseas operations was undertaken and that it was successful.

¹ Studies and papers by Federal Reserve Board staff in the 1960's and early 1970's also take what former Federal Deposit Insurance Corporation Chairman Frank Wille has termed a "cheerleader" tone.

² Nomination of James J. Saxon to be Comptroller of the Currency. Hearing before the Committee on Banking and Currency, United States Senate, 87th Congress, 2nd Session, February 6, 1962, pp. 19-20.

Comptroller Saxon proposed two important changes in laws governing international activities, both of which were enacted.

(1) The first, enacted in August 1962, liberalized Federal Reserve Board regulations which permitted branches to engage only in those activities which were permissible for the U.S. parent. Branches were authorized to engage in the activities usual for banks in the country in which the branch was located (including, for instance, insurance) but not in commercial activities (producing, buying, selling goods, etc.) or securities transactions.

(2) The other, enacted in 1966, authorized U.S. banks to establish banking subsidiaries overseas or to acquire directly shares in foreign banks. Before this latter amendment, banks could only establish or acquire overseas affiliates through Edge Corporations and could invest in individual companies an amount equal to only 10 percent of the Edge's capital, or 15% of the company were a bank. Further, only 10% of the bank's capital could be invested in the Edge Corporation. The 1966 amendment allowed the bank to invest directly in foreign banks. This greatly expanded the potential for foreign investment and permitted larger investments in individual institutions. The result was that it became possible for the largest U.S. banks to own foreign banking institutions of very substantial size.

Regulation and supervision of overseas activities are largely the responsibility for the Federal Reserve Board. Section 25 of the Federal Reserve Act gives the Board authority to approve and regulate overseas branches of member banks; Section 25(a) gives it jurisdiction over Edge and Agreement Corporations and under the Bank Holding Company Act it also has exclusive jurisdiction over foreign activities conducted by bank holding companies. The Comptroller of the Currency is authorized to examine the foreign branches of national banks and has an office in London which, in effect, serves as a regional office for overseas operations. The Comptroller also makes recommendations to the Board concerning applications by national banks to establish foreign branches. The Board examines foreign branches of state member banks and New York state examiners have also participated to some degree in examining foreign branches of the very large state chartered banks located there.

Although they participate in the examining process, neither the Comptroller nor State authorities have power to veto approval given by the Federal Reserve Board for branches and subsidiaries of either national or state member banks and cannot serve as alternative licensing agencies in approving foreign activities. The Federal Reserve Board has jurisdiction, however, only over member banks. Until recently, this presented no problems because most banks large enough to establish foreign branches and subsidiaries were member banks. But recent approvals of foreign branches by state authorities prompted the FDIC to request legislation giving it authority to approve, regulate and supervise foreign branches of state non-member banks.³

The Board's criteria for approval of foreign branches and a description of some of the developments in the regulatory structure which it

³ The establishment of foreign subsidiaries and affiliates remains the exclusive jurisdiction of the Federal Reserve Board under Section 25 and 25(a) of the Federal Reserve Act and the Bank Holding Company Act Amendments of 1970. No state laws currently authorize state non-member banks establish foreign subsidiaries and affiliates.

has devised are contained in the following response by Federal Reserve Board Chairman Arthur Burns to questions raised by Congressman Wright Patman in February 1973:

The Congress in enacting the Federal Reserve Act in 1913 authorized the establishment of foreign branches by national banks, subject to the approval of the Board and such rules and regulations as the Board might prescribe, on the grounds that such foreign branches would contribute to the furtherance of the foreign commerce of the United States. The Board in carrying out its responsibilities under the statute has sought to foster a strong branch banking system overseas which would afford U.S. commercial and investment interests from all sections of the country access to adequate and alternative sources of financing and financial services for their international transactions. The criteria employed by the Board in approving the establishment of foreign branches have been mainly concerned with the condition of the bank and its ability to operate and manage a foreign branch. A bank's condition is reviewed with respect to the adequacy of its capital, the quality of its assets and the general reputation and capabilities of its management; in addition, for banks seeking to establish their initial foreign branch or other foreign operation, the bank's experience and expertise in international lending and financing are scrutinized. Only rarely have other policy considerations been taken into account in acting on an application to establish a foreign branch.

In the past decade, only four applications for overseas branches have been denied by the Board. Only one of these, the application by the Bank of the Commonwealth, Detroit, Michigan, for a branch in Nassau was denied on the grounds of an unsatisfactory condition of the bank. In some other instances, however, approval has been withheld pending corrective action by bank management with respect to capital, quality of assets, operational procedures or personnel requirements.

Another application for a limited service branch facility in Paris by the Union Bank, Los Angeles, California, was denied since the bank already has a "shell" branch in Nassau. The disposition of this application is related to the question of Nassau branches which is discussed below.

Two applications for branches in Puerto Rico were denied in this period. The Secretary of the Treasury of the Commonwealth of Puerto Rico objected to the establishment of these branches by a bank headquartered outside Puerto Rico on the grounds that the banking needs of the Commonwealth could be adequately served by the banking institutions already operating in Puerto Rico. The Board acceded to the wishes of the Puerto Rican authorities in these instances. These two cases are the only ones where it might be said that local conditions of competition and concentration of banking facilities indirectly influenced the Board's decision. Normally these considerations do not enter as elements in the Board's actions on foreign branch applications: foreign banking authorities are the ultimate licensing agency for the entry of alien banks into their market and those authorities are in the best position to judge banking requirements in those markets; from the U.S. point of view, the public interest of furthering the foreign commerce of the United States is best served by permitting competitive alternatives among U.S. banks abroad, rather than confining branch facilities to the few very large U.S. banks who have long had foreign branches.⁴

Section 25 of the Federal Reserve Act gives the Board very broad powers in regulating foreign branches. These powers are subject to no Congressional guidelines other than that the branches shall further the foreign commerce of the United States, and no specific restrictions or limitations on branch activities are expressed in the law. As discussed elsewhere, Section 25(a) which deals with Edge Act Corporations is far more restrictive and specific in its limitations. As a result of these restrictions, Edge Act Corporations have not been used as extensively as branches to conduct international banking operations. They are used principally as vehicles for overseas investments.

⁴ *Economic Report of the President*, Hearings before the Joint Economic Committee, February 20, 1973. This earlier response from the Board has been used instead of the response to the FINE Questionnaire (which is published elsewhere) because it provides more detailed information on this subject.

In regulating the foreign branches, the Federal Reserve Board has limited its responsibility almost exclusively to the relationship between the branch and the home office, reflecting the concern with balance of payments problems. Domestic regulations governing interest rates and reserve requirements do not apply although reserve requirements are imposed on foreign branches when they extend credit to U.S. residents. The reasons for this attitude are fairly obvious. The branches are located outside the United States and the Board is reluctant to intrude on the sovereignty of other countries or to impose restrictions which would put the branches at a disadvantage with banks in the host country. In many countries, branches are subject to the same regulations which govern the operations of local banks, including reserve requirements or liquidity ratios. Whether these requirements are more restrictive or less restrictive than U.S. regulations, they ensure competitive equality in a given banking market.

But, in some countries U.S. banks' foreign branches are sealed off from local banking operations, restricted to an international business and therefore exempt from reserve requirements, liquidity ratios or other regulatory restraints. As discussed elsewhere, approximately 75% of foreign branch activities of U.S. banks is conducted in these international financial centers. Thus, the absence of regulatory restraints for branches would appear to be the norm. But banking subsidiaries and affiliates of U.S. banks presumably are regulated by foreign central banks because they are part of the banking system of the country in which they are located despite foreign ownership. On the other hand, no one regulates or supervises the extraordinary number of non-banking subsidiaries and affiliates which U.S. banks have acquired overseas.

Whether or not considerations of competitive equality justify the Board's abdication of regulatory responsibility over the operations of branches requires some scrutiny. There are substantial differences in the type of activity undertaken by branches as contrasted with domestic offices, some of which appear to indicate potential problems.⁵ The Board has taken the position that it is the responsibility of the parent bank to regulate overseas activities where foreign central banks are not specifically involved. The regulatory framework which the Board has provided—Regulations K and M—limit the range of activities of branches as described above and impose reserve requirements only on loans (not liabilities) to U.S. residents.

In its role as the supervisor of international activities of state member banks the Federal Reserve System focuses on whether or not a bank's senior management is exercising the proper control over foreign activities. This was demonstrated recently in a Federal Reserve staff survey of foreign exchange operations which recommended that internal audit and control systems be improved and made more uniform. The Comptroller's office has also recommended uniform requirements for foreign exchange accounting. But the Board's view is that expertise among banks differs and that explicit regulation of activities such as foreign exchange and bond trading should be avoided since it may be too restrictive for some banks and too permissive for others.

⁵ Most of these problems—excessive reliance on the interbank market for funds, heavy concentrations of loans to individual countries and industries, risks in foreign exchange operations, high proportions of term loans, etc.—are discussed elsewhere.

Internal audit and control systems are, of course, a critical factor in good management; outside regulation and supervision are no substitute for them. But the lack or insufficiency of internal controls in international activities have led banking regulators to focus on the importance of self-regulation at the expense of an adequate appraisal of their own regulatory role in this area.

In response to the FINE Questionnaire, the Comptroller cites the inadequacy of oversight by banks' senior management before 1974 but notes an improvement since that time. He also makes the point that while the Comptroller's Office is the primary supervisor of international activities—i.e., national banks have more overseas offices—it is not the primary regulator of these activities. The Comptroller's response states that the "most serious problem" affecting the supervision of international activities is, in fact, a regulatory problem relating to the application of lending and borrowing limitations.

As supervisor of national banks, the Comptroller's Office requires that domestic offices and foreign branches of banks be combined for purposes of computing statutory limits on loans to one borrower. But the Federal Reserve Board sets separate lending limits for Edge Act Corporations, all of which are under its regulations, and proscribes no limits on loans to one borrower for subsidiaries of Edge Corporations. The Comptroller states that his office intends to review this area to determine if additional regulations are possible and necessary for subsidiaries of national banks.

Efforts have also been made to improve the examining process. The Comptroller has centralized examination of international activities in the Washington office in order to coordinate home office and foreign branch examinations. The Federal Reserve has not centralized exams although there is recognition by staff members of the need for specialized expertise in examinations of international activities. The Comptroller's Office has also established a central committee to evaluate loans to individual countries. It also aggregates information on large domestic and foreign loans in order to standardize evaluations since banks in a number of regions may participate in syndicated loans to a single borrower. Other regulators have not as yet established similar procedures.

Both the Federal Reserve Board and Comptroller rely heavily on examinations in supervising international operations, but the quality of examinations cannot be evaluated. Moreover, whether supervision and regulation are adequate cannot be determined in the absence of adequate disclosure. Discussions in other sections of this study have pointed out that there is a lack of detailed information on international activities. Regulatory authorities have not aggregated and distributed information on such important data as the country of residence of depositors or borrowers and the type of security behind loans.⁶ The survey conducted by the Federal Reserve Board for the Senate Subcommittee on Multinational Corporations is the first effort in this area.⁷

Regulators also have not required foreign branches and subsidiaries to reveal the business of borrowers although they require very detailed information on domestic commercial and industrial loans from large

⁶ Presumably bank examiners do have access to this information for individual banks but not for aggregates of banks.

⁷ See "Twelve Multinational Banks" and "Some Special Problems—Term Lending."

weekly reporting banks in the United States. The fact that over one-eighth of Morgan Guaranty Trust Co's. international loans were loans to two industries—petroleum and shipping—became known as a result of its filing with the Securities and Exchange Commission in connection with its February 1976 stock offering.

This degree of disclosure is necessary so that the "exposure" of foreign branches and subsidiaries can be determined. Without adequate disclosure, the economic utility of foreign lending cannot be evaluated. Moreover, it is probable that lack of disclosure encourages inadequate managerial control. Inadequate data also precludes the development of monitoring systems by regulatory authorities which would reveal the development of questionable banking practices before they reach the point where a turn-around is impossible.

CONCLUSION

This study reflects acceptance of the widely held view that foreign branches should be seen as an integral part of the parent bank. But it is clear that in some respects this view is inappropriate. The differences between branch operations and those of the home office are one factor. Another is that foreign branches are usually funded overseas but that rescue operations by the parent bank using U.S. funds must take into account interest-rate differentials, reserve requirements, exchange controls, etc. Thus, to assert that a heavy concentration of loans by branches to a given country or industry, or concentration of term loans, does not really represent a concentration at all in the context of the total parent network is not a prudent position. The branches of U.S. banks in each country should be regarded for purposes of regulation both as separate banks, reasonably capable of independent survival, and as part of the overall parent network, both foreign and domestic.

There is need for improvement in the regulation of foreign branches and subsidiaries of U.S. banks by U.S. authorities. Closer, more complete regulation is required not only because of questions relating to the soundness of individual banks and the banking system, but also because broader economic and policy questions require better surveillance. Given the immense volume of international activity by U.S. banks and the implications of this activity for the U.S. balance of payments, the value of the dollar, U.S. policy with respect to countries whose governments are heavily in debt to U.S. banks, etc., it is necessary that overseas operations be regulated according to the same standards—if not the exact same rules—that apply to domestic operations. Support for this view was expressed by Richard H. Cummings, Executive Vice President of the National Bank of Detroit:⁸

Since financial interdependence requires there be no ambiguity with regard to parental responsibility for overseas banking activities, whether branch or subsidiary, similarity of regulation is essential.⁹

⁸ Response to questions raised by Congressman Fernand J. St Germain in December 1975.

⁹ Letter from Richard H. Cummings to Hon. Fernand J. St Germain, January 29, 1976.

CHAPTER 6

THE INTERBANK MARKET

Interbank markets—both domestic and international—have been the major vehicle for the creation and expansion of external currency markets and have contributed to a greater integration of national economies. As described in the introduction, they also played an important role in the currency crises of 1971 and 1973. It seems useful, therefore, to discuss the U.S. interbank market in detail, both to provide more information on how this integration takes place and to examine the impact of increased activity in this area on the U.S. banking system and the U.S. economy.

The "Domino" Theory of Bank Failure

A former official in the Division of Banking and Business Research of the Federal Deposit Insurance Corporation, Clark Warburton, outlined the causes of bank failures as the following:

- (1) Bad management and fraud.
- (2) Regional economic factors involving problems in local or regional industries especially when banks are overcommitted to one industry.
- (3) General economic factors which reflect monetary policies that result in excessive inflation or business depressions.

The first two of these causes relates to individual banks and the third supposes that many or all banks will be affected on an individual basis by problems arising outside the banking system. The so-called "domino" theory of bank failure relies on an additional causal factor. It supposes an interrelationship between banks of significant size so that the problems of one bank are passed on to others.

When a bank fails which has a large amount of liabilities to other banks, its failure can cause a general reaction. Funds which are considered most liquid turn out to be most frozen. The impact of recent bank failures on other banks has been demonstrably visible in terms of standby letters of credit as in the case of U.S. National Bank of San Diego and foreign exchange transactions in the cases of both Herstatt and Franklin National Bank. Franklin, however, also had a substantial volume of deposits of other banks in its London and Nassau branches and was a consistently heavy borrower of Federal funds. The action of the Federal Reserve in lending to the bank appears to have provided the time necessary to wind down the several billions of dollars of commitments to other banks in the form of future foreign exchange contracts and approximately \$1.5 billion of liabilities to other banks for Federal funds and deposits in its London branch.

The hasty decision of the Federal Reserve to intervene in the Franklin case as lender of last resort on such a massive scale raises questions as to whether or not the Fed's action actually did avert something like a modern-day panic in the banking industry. Are the interrelationships between banks on such a scale that a \$4 to \$6

billion default on payment of deposits and foreign exchange contracts by Franklin could have caused a chain reaction in the banking system? Are there other banks with a comparable volume of interbank liabilities? In attempting to answer these questions it is necessary to examine both the domestic and international interbank markets and indicate how they provide the critical interrelationship between national and international banking systems.

THE HISTORICAL CONTEXT

The interbank market is not a new phenomenon. Since the development of modern banking, banks have maintained balances with correspondents in other cities and countries and banks which are not members of the Federal Reserve System count deposits with other domestic banks as a portion of the reserves they are required to maintain under state laws. Before the establishment of Federal Reserve banks in 1914, all commercial banks maintained reserve balances with other banks. This practice led to panics precipitated by the funneling of excessive bank credit into speculative loans and the bidding up of deposit rates with the result that there was an increased flow of deposits of smaller banks outside the money market centers to the larger money market banks. A rumor that a given bank was in trouble would cause a run on the bank which would develop into a panic as it attempted to meet its own deposit liabilities by utilizing the reserves of other banks which then lacked adequate liquid assets to pay off their own depositors.

A series of such events unfolded during the panic of 1907 and created irresistible pressure from the public for banking reform. The establishment of a system of publicly controlled reserve banks was viewed as the answer to this problem and, as noted, such a system was created by the 1913 Federal Reserve Act. Reflecting a resurrection of the intent of the National Bank Act of 1863 to create a federally chartered banking system in which the public could have confidence, the 1913 legislation required all national banks to become members of the Federal Reserve System and to maintain reserves as non-interest-bearing deposits in the 12 regional reserve banks. The purpose was to ensure the liquidity of reserves and to insulate the banking system in such a way that the failure of one bank would not threaten others.

DEVELOPMENT OF THE FEDERAL FUNDS MARKET

Substantial use by banks of the interbank market reflects what has come to be called liability management. It is described as a shift from managing assets to an aggressive policy of purchasing additional liabilities to accommodate increasing loan demand or, as in the case of Franklin, to expand the bank's investment portfolio. The principal sources of purchased funds are the domestic C.D. and Federal funds markets and the Eurodollar interbank market.

The traditional definition of Federal funds is that they are excess reserves which banks lend one another overnight. If one bank has an excess of reserves on deposit at its district Federal Reserve bank, it can sell a portion of its balance to another bank which needs to make up a reserve deficiency and charge that bank a fee for the "sale" of

the funds. Since Federal Reserve purchases of government securities in the open market for the purpose of increasing member bank reserves and stimulating an increase in the money supply necessarily result in the creation of excess reserves for some banks which need to be spread throughout the banking system, the development of the Federal funds market was encouraged as a means of more rapidly and efficiently transmitting the effects of an expansionary monetary policy.¹ Conversely, the need for a given bank to borrow reserves from other banks to make up a reserve deficiency after a sale of securities by the Federal Reserve helps to transmit a restrictive policy throughout the banking system.

Currently the Federal funds market does not altogether match the above description of the traditional model. Purchases and sales are not confined to funds which are deposited with Federal Reserve banks and sources of funds have widened to include other financial institutions such as mutual savings banks, savings and loan associations and foreign banks and, as some regulatory officials indicate, non-financial institutions. The attraction of Federal funds for the purchasing bank is that they are available the same day they are purchased and are liabilities against which there are no reserve requirements. This means that they actually cost less than other liabilities, such as Eurodollars which may bear the same rate of interest but are subject to reserve requirements. Some of the savings for the purchasing bank may be passed on to the seller.

The amount of one bank's liabilities which can be sold to another bank is not subject to legal lending limits. All other loans to one borrower are subject to limits on outstandings equal to 10 percent of bank capital and surplus, including loans to the bank's affiliates which are also subject to a 20% limitation on aggregate loans outstanding to all affiliates. However, a given bank may have loans outstanding to another bank which it classifies as Federal funds and which are equal to 15 or 30 percent or more of capital and surplus. Moreover, while technically loaned overnight, these so-called Federal funds may be rolled over indefinitely. A recent development in the market is a phenomenon called "term" Federal funds and while the amount of 6 month money available may not be a substantial portion of the total, the trend toward longer maturities is apparent.

For the most part, Fed fund sales are unsecured. If a bank seeks to purchase funds in excess of the amount which the seller considers prudent, the seller may require that the excess portion be secured. This transaction is described as a securities resale agreement on the part of the lender, or a securities repurchase agreement on the part of the borrower.

GROWTH OF THE INTERBANK MARKET

At the end of the week of June 29, 1960, large member banks reported 3.7% of their assets in the interbank market in the form of loans to other domestic and foreign banks and balances with domestic

¹ The Federal Open Market Committee buys and sells government securities for the System account through a limited number (about 20) of bank and non-bank dealers. It pays for its purchases by check which it honors by crediting the reserve account of the bank from which it bought the securities or in which a non-bank dealer has an account. When it sells securities, it accepts payment by debiting the account of the purchasing bank or the purchaser's bank.

banks. On June 23, 1965 assets of large banks in the interbank market were 3.5% of the total. On June 25, 1969 the percentage had risen to 4.0% and for the first time included Federal funds sold and securities resale agreements with other banks. Interbank assets as a percentage of the total have risen every year since 1969, reaching a peak of 7.5% in March, 1974.

The growth in liabilities of large weekly reporting banks to other banks is somewhat more difficult to trace. There was no break-out of information on Federal funds purchases and sales before 1969. However, in 1968 borrowings of large banks were 3.8% of total liabilities—up from 1.3% in 1960 and 1.9% in 1965—and deposits of other banks were 6.16% of the total. By June, 1969 borrowings had dropped to 1.1% but the large banks were reporting that 4.2% of their liabilities were in the form of Fed funds purchased and securities sold under repurchase agreements.² In addition, 6.1% of their liabilities were deposits of other banks.

TABLE I.—INTERBANK ASSETS/LIABILITIES REPORTED WEEKLY BY LARGE COMMERCIAL BANKS AS PERCENTAGES OF TOTAL ASSETS/LIABILITIES

[In percent]

| | June 1970 | June 1971 | June 1972 | June 1973 | Novem- ber 1973 | June 1974 | Novem- ber 1974 | June 1975 | Novem- ber 1975 |
|--|--------------|--------------|--------------|--------------|-----------------------|--------------|-----------------------|--------------|-----------------------|
| Interbank deposits..... | 6.47 | 8.30 | 6.72 | 6.37 | 7.08 | 6.97 | 7.78 | 7.08 | 7.83 |
| Federal funds purchased ¹ | 5.83 | 5.55 | 7.72 | 8.73 | 10.70 | 10.49 | 10.77 | 9.98 | 9.92 |
| Total interbank liabilities..... | 12.30 | 13.85 | 14.44 | 15.10 | 17.78 | 17.47 | 18.55 | 17.06 | 17.75 |
| Interbank assets ² | 4.14 | 4.97 | 6.17 | 6.86 | 7.39 | 7.24 | 6.85 | 6.37 | 6.68 |
| Net interbank liabilities..... | 8.16 | 8.88 | 8.27 | 8.24 | 10.39 | 10.23 | 11.70 | 10.69 | 11.07 |
| Federal funds purchased ³ | 5.83 | 5.55 | 7.72 | 8.73 | 10.70 | 10.49 | 10.77 | 9.98 | 9.92 |
| Federal funds sold ³ | 2.02 | 2.21 | 2.69 | 2.54 | 2.84 | 2.88 | 2.80 | 2.50 | 2.80 |
| Net Federal funds purchased.... | 3.81 | 3.34 | 5.03 | 6.19 | 7.86 | 7.61 | 7.97 | 7.48 | 7.12 |

¹ Includes also securities sold under agreements to repurchase.

² Includes loans to and balances with other banks, Federal funds sold and securities purchased under agreements to resell.

³ Includes also transactions involving securities repurchase and resale agreements.

Note: All data for last week in month

Source: "Federal Reserve Bulletin."

These figures would seem to indicate that over the decade of the 1960's the interbank market, including interbank deposits, supplied approximately 9 to 10 percent of the liabilities of large reporting banks and supplied approximately 3.5 to 4 percent of their total funds to other banks, with net liabilities of approximately 5½ to 6 percent. In 1960, however, the interbank liabilities of large banks were subject to reserve requirements. By 1969, the large banks held reserves against only two-thirds of the liabilities derived from other banks.

The growth in the volume of transactions of large weekly reporting banks in the interbank market since 1969 is shown in the table below.

² The Federal Reserve Bulletin does not give separate figures for Fed funds purchased nor does it indicate the source of funds. As noted above, most transactions are handled through brokers but it is generally assumed that the bulk of the funds are provided, ultimately, by commercial banks.

There is no break down as to sources of borrowed funds other than borrowings from the Fed. There is some evidence that a portion of these borrowings are from other banks just as a portion of "other liabilities" represent transactions with other banks such as "securities short sales" and similar arrangements. For purposes of the present analysis, however, only deposits of other banks and Federal funds transactions will be considered as liabilities derived from the interbank market.

As the table indicates, interbank deposits as a percentage of the banks' total liabilities has changed very little. The amount of funds large banks supply to the interbank market has increased by about 3% of which about 1% is an increase in sales of Federal funds. But purchases of Federal funds as a percentage of total liabilities have doubled during this period as have the net percentage liabilities of the banks in the Federal funds market. Compared with the 1960-1968 period, both gross and net interbank liabilities as percentages of the banks' total resources have doubled.

Published data on assets/liabilities for all insured banks is a somewhat less accurate measure of the interbank market than is the weekly condition report because of the greater interval in reporting.³

However, the break-down of Federal funds purchases and sales by class of bank on April 24, 1974 below indicates the expected variation in the pattern of supply and use. Large New York City banks supplied less than 2% of their funds to the Federal funds market but acquired slightly more than 10% of their liabilities from that market. The figures for other large banks are slightly different. They supply more funds to and obtain more funds from the market as a percent of total assets/liabilities than do New York City banks, but their position as net recipients of these funds is approximately the same, 8.4%. The differences reflect the fact that while the large regional banks also expanded their volume of assets by purchasing Federal funds, they were more active as brokers in moving funds than were the New York City banks.

An examination of the figures for small banks indicates that they are net suppliers of Fed funds to the large banks. Member banks supply 4.06% of their funds to the market and obtain only 3.33% of their funds from that source. Non-member banks have a substantially higher net position of assets over liabilities in the Federal funds market—4.16% for non-member banks as compared with .73% for member banks not classified as large banks. It also should be noted that non-member banks hold more of their assets as balances with other banks than do any other class of banks. This reflects the fact that they are permitted to count such balances as reserves in meeting requirements of state authorities. As a result, almost 10½% of non-member bank assets are claims on other banks.

³ Also because loans to commercial banks are included. It should be noted however, that while there is a substantial increase in such loans reported by the larger banks in 1973, they are less than 1% of total assets—the peak being .88% in December 1973—and would not be statistically significant for all insured banks if one assumes such loans are made for the most part by the larger banks.

TABLE II.—APRIL 24, 1974

| | All insured commercial banks | Member banks | | | | | Nonmember banks |
|--|------------------------------------|--------------|------------|------------------|------------|------------|--------------------|
| | | Large banks | | | | | |
| | | Total | Total | New York City | All other | | |
| Total liabilities..... | \$826, 736 | \$653, 091 | \$396, 742 | \$120, 166 | \$256, 349 | \$173, 645 | |
| Deposits of other banks ¹ | 37, 173 | 35, 492 | 31, 740 | 19, 250 | 3, 751 | 1, 684 | |
| As percent of total liabilities..... | (4.49) | (5.43) | (8.00) | (16.01) | (1.46) | (0.96) | |
| Demand deposits..... | 30, 539 | 29, 410 | 26, 014 | 15, 483 | 3, 396 | 1, 131 | |
| As percent of total liabilities..... | (3.69) | (4.50) | (6.55) | (12.88) | (1.32) | (0.65) | |
| Time deposits..... | 6, 634 | 6, 082 | 5, 726 | 3, 767 | 355 | 553 | |
| As percent of total liabilities..... | (0.80) | (0.93) | (1.44) | (3.13) | (0.13) | (0.31) | |
| Federal funds purchased and securities sold under agreements to repurchase..... | 57, 316 | 55, 343 | 46, 782 | 12, 303 | 8, 561 | 1, 973 | |
| As percent of total liabilities..... | (6.93) | (6.47) | (11.79) | (10.23) | (3.33) | (1.13) | |
| Total assets..... | 826, 736 | 653, 091 | 396, 742 | 120, 166 | 256, 349 | 173, 645 | |
| Federal funds sold and securities re- sale agreements..... | 33, 019 | 23, 831 | 13, 400 | 2, 221 | 10, 432 | 9, 187 | |
| As percent of total assets..... | (3.99) | (3.64) | (3.37) | (1.84) | (4.06) | (5.29) | |
| Reserves with Federal Reserve Banks..... | 29, 848 | 29, 848 | 18, 895 | 6, 515 | 10, 954 | ----- | |
| As percent of total assets..... | (3.61) | (4.57) | (4.76) | (5.42) | (4.27) | ----- | |
| Balances with other banks..... | 26, 589 | 17, 674 | 10, 474 | 5, 994 | 7, 201 | 8, 916 | |
| As percent of total assets..... | (3.21) | (2.70) | (2.64) | (4.98) | (2.80) | (5.13) | |

Note: Includes mutual savings banks, domestic commercial banks and foreign banks.

Source: Federal Reserve Bulletin," September 1974 A, 18..

If non-member banks are the principal source of interbank deposits, large New York City banks are the recipients. The fact that 16% of their liabilities consist of deposits of other banks reflects the increasing importance of New York as an international money center. A substantial portion of the total is contributed by foreign banks, especially time deposits. However, domestic banks also hold substantial balances in New York as well as with other large banks outside New York. The \$20 billion of interbank funds on deposit in large banks in New York together with the \$12 billion which these banks have purchased in the Federal funds market may be viewed as an indication of how important to the well-being of the banking system as a whole is the soundness of these relatively few but very large institutions which collectively owe more than a quarter of their funds to other banks.

Table III outlines the degree of involvement in the interbank market for individual banks over the last 4 years and indicates more accurately than do aggregate figures the increase in and concentration of interbank activity in money market centers. By the end of June, 1974, the two largest banks in New York City obtained over a quarter of their liabilities in the interbank market. October reports indicate that four other large New York City banks obtained interbank funds equal to between 30 and 40 percent of liabilities and 2 others obtained about 45 percent.

The increase in purchases of Fed funds by individual banks is also a cause for concern. Franklin was unable to remain profitable and to continue operations because the cost of purchasing 20 percent of its liabilities in the Federal funds market was greater than its overall return on assets.

TABLE III.—INTERBANK ASSETS/LIABILITIES OF THE 21 LARGEST U.S. BANKS AS PERCENTAGES OF THEIR TOTAL ASSETS/LIABILITIES

| Name of bank | 1971 | | | | 1972 | | | | 1973 | | | | 1974 | | | |
|----------------------------------|--------|-------|---------------------------|-----------------|-------|--------|-------|---------------------------|-----------------|-------|--------|-------|---------------------------|-----------------|-------|---------------------------|
| | Assets | | Liabilities | | Total | Assets | | Liabilities | | Total | Assets | | Liabilities | | Total | Federal funds liabilities |
| | Assets | Total | Federal funds liabilities | Net liabilities | | Assets | Total | Federal funds liabilities | Net liabilities | | Assets | Total | Federal funds liabilities | Net liabilities | | |
| Bank of America | 7.6 | 8.3 | 6.0 | 0.7 | 8.5 | 8.3 | 6.2 | (0.2) | 10.7 | 9.7 | 10.7 | 9.7 | 7.5 | (1.0) | 9.3 | 8.1 |
| First National City Bank | 3.7 | 14.7 | 5.1 | 11.0 | 4.5 | 18.9 | 7.8 | 14.4 | 6.7 | 22.7 | 6.7 | 22.7 | 7.5 | 16.0 | *6.4 | *23.7 |
| Chase Manhattan Bank | 5.4 | 17.6 | 4.9 | 12.2 | 8.1 | 21.9 | 7.4 | 13.8 | 7.7 | 21.7 | 7.7 | 21.7 | 7.3 | 14.0 | *12.6 | *10.2 |
| Manufacturers Hanover | 5.4 | 32.7 | 4.2 | 27.3 | 8.8 | 28.5 | 5.9 | 19.7 | 8.9 | 27.8 | 8.9 | 27.8 | 4.3 | 18.9 | 12.1 | *7.8 |
| Morgan Guaranty Trust Co. | 5.1 | 28.6 | 8.1 | 21.5 | 8.4 | 26.9 | 8.4 | 18.5 | 10.2 | 29.4 | 10.2 | 29.4 | 11.9 | 19.2 | 11.6 | 8.2 |
| Chemical Bank, N.Y. | 3.4 | 20.0 | 7.6 | 16.6 | 5.6 | 22.6 | 10.5 | 17.0 | 5.6 | 24.1 | 5.6 | 24.1 | 12.9 | 18.5 | 6.1 | 15.6 |
| Bankers Trust Co., N.Y. | 5.1 | 19.0 | 3.3 | 13.9 | 14.2 | 26.5 | 8.6 | 12.3 | 9.8 | 27.2 | 9.8 | 27.2 | 6.7 | 17.4 | 11.4 | 9.1 |
| Continental Illinois N.B. & T.C. | 3.0 | 14.8 | 4.9 | 11.8 | 3.3 | 17.0 | 9.4 | 13.7 | 5.4 | 24.7 | 5.4 | 24.7 | 18.4 | 19.3 | 5.2 | 20.0 |
| First National Bank, Chicago | 5.8 | 17.7 | 11.0 | 11.9 | 3.8 | 15.8 | 10.8 | 12.0 | 5.9 | 16.8 | 5.9 | 16.8 | 10.6 | 10.9 | 5.2 | 22.6 |
| Security Pacific National Bank | 1.9 | 6.4 | 4.8 | 4.5 | 2.0 | 9.0 | 7.0 | 7.0 | 4.0 | 7.7 | 4.0 | 7.7 | 6.0 | 3.7 | 3.5 | 14.3 |
| Wells Fargo Bank N.A. | 4.0 | 11.6 | 9.9 | 7.6 | 1.7 | 9.3 | 6.7 | 7.6 | 3.6 | 18.4 | 3.6 | 18.4 | 15.8 | 14.8 | 4.8 | 26.2 |
| Crocker National Bank | 4.6 | 9.9 | 7.7 | 5.3 | 5.0 | 8.3 | 6.1 | 3.3 | 6.5 | 12.4 | 6.5 | 12.4 | 9.5 | 5.9 | 8.0 | 8.1 |
| Mellon Bank N.A. | 18.4 | 15.7 | 11.2 | (2.7) | 19.3 | 18.3 | 14.8 | (1.0) | 20.2 | 15.2 | 20.2 | 15.2 | 12.1 | (5.0) | *16.6 | *7.6 |
| Irving Trust Co., N.Y. | 4.2 | 28.7 | 4.2 | 24.5 | 6.1 | 28.4 | 3.8 | 24.3 | 14.3 | 28.6 | 14.3 | 28.6 | 5.4 | 14.3 | 15.7 | *13.6 |
| United California Bank | 3.2 | 17.9 | 12.5 | 14.7 | 3.2 | 14.8 | 8.4 | 11.0 | 3.6 | 17.5 | 3.6 | 17.5 | 12.0 | 13.9 | 8.9 | 44.4 |
| Marine Midland Bank-N.Y. | 3.1 | 30.0 | 4.1 | 24.9 | 14.7 | 26.3 | 4.5 | 11.6 | 17.2 | 36.7 | 17.2 | 36.7 | 8.1 | 13.5 | 11.9 | 14.8 |
| First National Bank, Boston | 3.5 | 21.1 | 9.7 | 17.6 | 10.2 | 20.6 | 13.2 | 10.4 | 5.6 | 22.1 | 5.6 | 22.1 | 11.7 | 16.5 | 5.6 | 45.3 |
| National Bank of Detroit | 11.5 | 14.2 | 9.7 | 2.7 | 17.4 | 11.0 | 7.0 | (6.4) | 9.3 | 15.1 | 9.3 | 15.1 | 11.3 | 5.8 | 16.1 | 8.5 |
| First Pennsylvania Bank, N.A. | 3.5 | 16.6 | 9.6 | 13.1 | 1.2 | 18.8 | 8.0 | 17.6 | 7.1 | 22.3 | 7.1 | 22.3 | 16.5 | 15.2 | 10.4 | 16.7 |
| Franklin National Bank | 9.9 | 11.9 | 7.7 | 2.0 | 15.0 | 19.6 | 12.8 | 4.6 | 14.1 | 26.8 | 14.1 | 26.8 | 20.9 | 12.7 | 28.8 | 13.7 |
| Union Bank, Los Angeles | 5.0 | 9.8 | 6.3 | 4.8 | 5.3 | 11.7 | 8.4 | 6.4 | 5.2 | 20.0 | 5.2 | 20.0 | 16.1 | 14.8 | 5.2 | 24.5 |
| Average all banks | 5.7 | 17.5 | 7.3 | 11.8 | 7.9 | 18.2 | 8.4 | 10.3 | 8.6 | 21.3 | 8.6 | 21.3 | 11.1 | 12.7 | 9.3 | 7.5 |
| | | | | | | | | | | | | | | | 23.0 | 11.4 |

Note: Interbank assets include loans to domestic and foreign banks, demand balances with banks in the United States, other balances with banks in the United States; balances with banks in foreign countries and Federal funds sold and securities purchased under agreement to resell. Interbank liabilities include demand and time deposits of banks in the United States and foreign countries and Federal funds purchased and securities sold under agreements to repurchase. Data are for domestic offices of banks; foreign branch data are not included. Data for 1971, 1972, and 1973 as of Dec. 31, 1974 data as of Oct. 15 except where marked (*) which is June 30. Banks are ranked by size of deposits, Dec. 31, 1973.

Source: Reports of condition supplied by the Comptroller of the Currency and by the Board of Governors of the Federal Reserve System. Compiled by Staff House Committee on Banking, Currency and Housing.

Thus, Franklin was forced to rely (unsuccessfully) on trading in government securities and foreign exchange transactions to produce profits. It is unlikely that any other bank has a profile which is an exact match of Franklin's. However, in a period of worsening economic conditions where loans which were very good when made can become bad loans, all banks become more vulnerable and those which rely heavily and continuously on purchases of very short-term funds for which the highest rates in the market must be paid will be especially vulnerable.

The above is a fairly simplistic description of a very sophisticated and complex market. It is intended only to indicate the basic features of the market, to call attention to its growth and to the possibility that its growth is related to the potential for evasion of central bank regulation. In this respect as in others, it resembles the growth of the Eurodollar or Eurocurrency market and, like that market, appears to offer enhanced opportunity for profit. The profits, however, appear to go to the larger banks. Smaller, regional banks which forego local lending opportunities in favor of selling Federal funds to larger institutions in other geographic areas will generate fewer local deposits. Meanwhile, the large money center banks continue to grow. It has been observed that the funneling of deposits from smaller to larger banks engaged in wholesale banking to large corporate customers has contributed to the trend toward economic concentration in the United States. It also contributes to concentration in banking.

MULTINATIONAL BANKS AND THE INTERBANK MARKET

While the interbank activities of U.S. banks' foreign branches are discussed elsewhere, it seems appropriate to note here the interrelationship between foreign branch and home office activities. The foreign branches are not separately capitalized and therefore any unusual practices which they undertake affect the capital structure of the parent bank. The operations of the parent and branches should, in fact, be viewed as a whole for purposes of evaluating the soundness of individual banks and, in fact, of the banking system.

Table IV states in terms of percentages of total assets/liabilities the combined domestic and foreign branch activities in interbank markets of 12 multinational banks. There are well over 100 U.S. banks with foreign branches but as late as 1971 only 12 banks had more than one overseas branch. Thus data on individual banks even in aggregate form has not been available to the Committee for analysis over time for more than these 12 banks.

Table IV shows the substantial increase in interbank borrowing and lending which occurred on a global scale in the brief span of three years and indicates the substantial impact which international banking practices have had on domestic banking. As the note on the table indicates, data on individual banks provided after 1972 does not contain information on liabilities derived from bank and nonbank sources. In view of the averages for both home office and foreign branches in 1971 and the large increases in interbank assets to which foreign branches contributed substantially in subsequent years, data on interbank liabilities are critical in evaluating the ability of individual banks to withstand the strains of highly volatile money-market conditions.

TABLE IV.—FOREIGN AND DOMESTIC ASSETS/LIABILITIES OF 12 MULTINATIONAL BANKS IN INTERBANK MARKETS AS A PERCENTAGE OF TOTAL ASSETS/LIABILITIES

| | Assets ¹ | | | | Liabilities 1971 ¹ |
|------------------------------------|---------------------|------|------|------|----------------------------------|
| | 1971 | 1972 | 1973 | 1974 | |
| Bank of America..... | 11.9 | 17.3 | 20.7 | 13.5 | 17.1 |
| First National City Bank..... | 9.3 | 11.3 | 15.6 | 16.3 | 21.0 |
| Chase Manhattan..... | 12.6 | 14.9 | 17.1 | 19.3 | 26.9 |
| Manufacturers Hanover..... | 4.8 | 7.3 | 9.2 | 27.6 | 40.1 |
| Morgan Guaranty..... | 10.7 | 16.2 | 18.8 | 19.6 | 32.5 |
| Chemical Bank..... | 10.4 | 15.3 | 16.2 | 15.3 | 27.6 |
| Bankers Trust Co..... | 15.4 | 23.2 | 22.6 | 19.4 | 27.2 |
| Continental Illinois..... | 5.1 | 13.7 | 15.1 | 11.8 | 26.9 |
| First National Bank, Chicago..... | 11.5 | 11.2 | 16.5 | 12.2 | 27.0 |
| Wells Fargo Bank..... | 10.3 | 7.2 | 11.4 | 11.0 | 20.6 |
| Marine Midland Bank, New York..... | 22.5 | 32.7 | 53.2 | 36.6 | 44.9 |
| First National Bank, Boston..... | 17.3 | 25.4 | 21.6 | 11.1 | 29.9 |
| Average, 12 banks..... | 11.8 | 16.3 | 19.0 | 17.8 | 28.5 |

¹ Data are for end of year.

Note: There is no break-out of interbank liabilities in data on foreign branches after 1971. Data includes only transactions with other banks and not intrabank transactions within foreign branch networks or between foreign branches and home offices.

Source: Reports of condition supplied by the Comptroller of the Currency and the Federal Reserve Board. Compiled by staff, House Committee on Banking, Currency and Housing.

The proportion of their total funds which these banks provided to other banks in 1974 made them highly vulnerable to failures by other banks especially if, because of general economic factors, a number of banks from a given country were involved. On the other hand, the amount of funds which were provided to these banks by other banks as early as 1971 and which one can reasonably infer has risen substantially since that time⁴ makes the soundness of these 12 institutions a matter of great concern. In pointing out the high level of involvement of individual banks in the interbank market, the intention is not to question the soundness of particular banks. The discussion is intended to call attention to a structural weakness in the banking system, not weaknesses of individual banks. A high level of interbank involvement does not necessarily undermine the strength of a bank. Nevertheless, the fact that these 12 banks do derive substantial amounts of funds from other banks means that they must be watched very carefully in terms of their potential impact on the domestic banking system, and on banking systems in other countries as well.

Through their branch systems, these banks reach into the domestic money markets of almost all industrialized countries and into major portions of developing areas as well. Together they control over \$317 billion of assets, or about 29.9 of the domestic and foreign assets of all insured U.S. banks. It is obvious that these and other multinational banks with similar influence on the well-being of both international and domestic economies will require far more careful and rigorous monitoring than has been provided to date. New developments in banking must be scrutinized promptly in terms of their positive or negative contribution to the general public interest and information must be provided so that Congress, the financial press, the academic community and the public at large can provide the kind of oversight in this area which is so necessary and so long overdue.

⁴ The liabilities of all foreign branches of U.S. banks to other foreign banks were 43.2% of total liabilities on December 31, 1974.

CHAPTER 7

FOREIGN EXCHANGE

The foreign exchange activities of U.S. banks have grown substantially in recent years not only because of floating exchange rates but also because an increased portion of their loans and deposits were denominated in currencies other than the dollar. Purchases and sales of currencies both for immediate delivery (spot) and delivery at some specified future date (forward) are necessary in order to match balance sheet items. For example, suppose the London branch of a U.S. bank receives a deposit in Deutschemarks which matures in three months. Suppose it has a borrower for Deutschemarks by the borrower only wants the funds for two months and wants only two million of the three million deposited. The bank then has several options. It can make the loan with the expectation that at the end of two months it will be able to find another borrower who wants two million Deutschemarks for a month and then lend the remaining funds to another bank overnight either in London or, if it has a branch in Germany, in the German domestic interbank market, until it finds a longer term or more profitable use for the funds.

But that is the most simple of possible alternatives and not necessarily the most profitable. It also assumes a certain passivity on the part of the branch which is out of character in this market. The low level of external nonbank foreign deposits in Eurodollar banks is both a cause and an effect of the way business is done. External deposits are desirable but cannot be depended upon. Thus, the bank finds it preferable to "manage" liabilities by purchasing them as needed. The bank makes the loan and then acquires the funds. The funds may be available because a depositor with Deutschemarks has appeared. But, more likely, the London branch will solicit a Deutschemark deposit from another bank, either within its own network—possibly from its parent's Frankfurt branch which will borrow the funds from local German banks—or from another, nonrelated bank—the London branch of another American bank or of a German, Italian or French bank that has a London office.

Before it does this, however, it will check the rates in the exchange markets to determine whether or not it will pay more for the funds it needs by borrowing them through the several available channels provided by the interbank market or by exchanging a dollar deposit (which it already has, which has been offered or which can be acquired in the same types of interbank transactions) for Deutschemarks. If that offers a cheaper solution (and it frequently does) then the London branch will contract to buy two million Deutschemarks for dollars for delivery on the day the loan is drawn down and contract to sell two million Deutschemarks for dollars on the day the loan is repaid.

When a bank makes such an arrangement it is taking more risk than it would take if it were only accepting deposits and making loans in dollars. But it is not speculating. If the contracts are matched

in terms of maturity with the loan, the bank knows that it is protected from any shift in exchange rates. It has already agreed to buy and sell a given number of Deutschemarks for a given number of dollars and to pay specified fees on the transactions. If the number of Deutschemarks offered for dollars—the spot rate—is more or less than the contract specifies on the day of delivery, the risk or profit will be borne by the party who is selling the funds to or buying them from the London branch—unless, of course, the other party is similarly protected by forward contracts.

Somewhere in the chain, however, someone is speculating or, to redress the pejorative implication, is “making a market” in the currencies traded and stands to make a profit or take a loss because, since the advent of floating rates, currencies do shift in value in relation to one another over relatively short periods of time. Most of the institutions which are making a market in currencies are banks and, for the most part, they are the largest banks. They have undertaken this role because they have a sufficient volume of business for customers and for their own account—the kind of transactions described above—so that they are “in” the market. Aware of the rates on a minute to minute basis all over the world by means of some of the most sophisticated technology in banking, the larger banks are in a position to buy currencies they don’t need when they recognize that the rate offered by one party is low and that a higher bid is being made elsewhere in the market by another party. But, as in any market, success is not guaranteed. The buyer in the example above may have found another seller in the meantime and the next buyer may offer less.

The above applies to the less complex aspect of the market, the day-to-day transactions which require judgments on immediate conditions. With capable personnel, a good recording system and adequate oversight and auditing procedures, such activities need hold few terrors. But there are factors which can cause problems for even the most careful banks. Some of these risks apply equally to banks which make a market in foreign exchange and those which do not—banks entering the market only to meet their needs but subject to risks inherent in the nature of conducting the business of banking in multiple currencies under floating exchange rates.

Any bank making a loan is taking a risk. If the lender does not repay the loan at the specified time, the bank must find other funds to meet liabilities due at that time. Frequently, this can only be done at rates which are less favorable to the bank. In the Eurodollar market where loan rates vary over the life of the loan and are tied to the cost of funds, there is some protection. This system was designed to cope with the fact that most loans are longer term than the short-term liabilities which support them. Nevertheless, if, as in our example above, a loan made in Deutschemarks is not repaid on a specified date and the bank must not only find other funds to meet its balance sheet liabilities but must also find the funds it contracted to pay when it make its contracts to exchange dollar deposits into the Deutschemark loan, there is additional risk. The bank has agreed to pay a given number of Deutschemarks for dollars on the basis of expectations at the time the contract was made as to the future rate. The prediction is seldom 100% accurate and so the bank which must buy Deutschemarks that day at the rate offered will pay more or fewer dollars for the number of Deutschemarks it needs to settle the contracts, and make an unexpected and fortuitous profit or take a loss.

A word about speculation seems appropriate at this point. During 1974 a number of banks were engaged in speculation and some suffered the consequences of heavy losses and—in two cases—ultimate failure. One of the means of speculation involved a deliberate choice to do what is described above. That is, some banks chose to make a contract to sell a currency at a given price at some point in the future, but failed to make an offsetting contract to buy the currency at the same price on the same date. The expectation was that the rates would decline at some point during the interval and the bank would make its offsetting contract at that time. Thus, the bank might remain “exposed” on a three-month futures contract for several weeks and then, having gotten a favorable rate, would make a matching contract, collecting in advance the profit it will make for selling fewer of the Deutschemarks it has just acquired for the same amount of dollars it will receive on the first contract. The unhappy ending to the story, however, occurs when the trader has guessed wrong and the Deutschemark appreciates against the dollar rather than declines. He may continue to put off making his matching contract in the hope that the trend will be reversed. Finally, however, he must buy the currency however unfavorable the rate. As is evident, there is some temptation to maintain an exposed position. The profits for guessing right are ample and the expenditure of effort and cost are seemingly slight.

Banks frequently have occasion to make guesses about such trends as the future direction of interest rates. They do so when they buy securities. Until recently, bankers seemed on safe grounds in tying rates on future contracts on currencies to expectations as to interest rate trends in domestic economies. The expectation was that rising interest rates would cause currencies to appreciate and declining interest rates would precipitate a decline in the exchange value of the currency. Recently, some observers have noted the reverse is true in some currencies—that, for example, the higher the bank rate rose in London, the more sterling declined. One explanation for why exchange rate movements should now deviate from the theoretical model supported in past times by a wealth of empirical evidence is that exchange contracts have become an important medium of investment and that the investor in the future of sterling sees a rise in interest rates in the U.K. as a portent of further economic troubles and a declining balance of trade. In any event, a mechanism which was reasonably accurate in predicting exchange rate movements has become somewhat skewed with the result that it may have become more costly and riskier to deal in these markets. The consensus as to trends in the market is increasingly a less reliable guide and the trader who makes a market has less certainty as to the outside limits of his own risk.

Finally, there is another risk which should be mentioned. Again, this risk applies not only to the large banks which make a market in foreign exchange, but to all banks which have occasion to use the market because they are engaged in an international business. The risk here is illustrated by the failure of the Herstatt bank and is referred to as the “credit” risk.

The classical situation in the credit risk case develops when one party in a contract fails to deliver. If the London branch of a U.S. bank has a contract to buy Deutschemarks, it is usually because they are needed to meet some other form of contractual obligation—a

contract to sell Duetschemarks to a corporate customer or to reimburse a Deutschemark depositor whose funds have been converted into Swiss francs for a loan. If the other party in the contract fails to deliver the Deutschemarks, the London branch must buy them "spot"—that is, at current market rates—and may take a loss. But currencies are usually delivered and received by telephonic transfer and it is possible that the London branch would deliver its dollars without certainty that it had or would receive the counterpart funds.

This is what happened in the Herstatt case. All the U.S. banks were selling Deutschemarks "spot" to the German bank for dollars and had already made delivery without being aware that the bank had in fact been closed. Most participants in the market were aware that the Herstatt bank was engaged in large-scale speculation and no longer would enter into forward contracts with it. But it was generally assumed that a "spot" contract carried little risk. In the aftermath of the Herstatt failure, more cautious arrangements were devised for payment and banks took greater care in evaluating other banks with whom they do business. Meanwhile, settlements were made which were somewhat more generous to foreign banks, than to others among Herstatt's creditors and the U.S. banks were repaid almost 80 cents on the dollar.

But, while the Herstatt case was instructive, it was by no means the major lesson which has emerged as a legacy from the tense summer of 1974. Herstatt's total foreign exchange exposure was a mere \$200 million and some of the U.S. banks involved wrote off all or part of the funds without a major threat to their solvency. But, Franklin National Bank's prospectus filed with the SEC at the end of March, 1974 in connection with its proposed acquisition of Talcott Finance Company indicated that it had foreign exchange contracts outstanding the previous December which totalled \$3.8 billion—not, in fact, an exceptionally high volume as measured by outstanding contracts at branches of other multinational banks. News accounts indicate that the aggregate volume of contracts rose further in subsequent months and were responsible for the \$40 million loss discovered by bank officials at the beginning of May. Given Franklin's high proportion of interbank liabilities—almost \$700 million of Federal funds and roughly \$1 billion of Euro-dollar placements in its London branch, half of which were deposits of other U.S. banks—the international banking system would have had to absorb losses of between \$5.5 and \$6 billion if Franklin had closed abruptly. But, to leave the bank open meant a run-off of deposits which eventually totalled \$1.7 billion, the amount of funds disbursed to Franklin through the Federal Reserve discount window.

The continuation of Franklin through the summer also helped to unwind its foreign exchange contracts but not without cost to the market. Many of the contracts were unmatched which meant that the bank's traders had to enter into shorter-term matching contracts to

rectify its exposure or else settle maturing contracts with spot purchases. Increasingly, other banks became reluctant to deal with Franklin even though it was being infused and supervised by the full panoply of U.S. bank regulators. Banks with outstanding contracts became ever more nervous, fearing a default by Franklin and calamitous reaction in the market at any moment. The situation was without precedent but, eventually, the Federal Reserve set one. It assumed responsibility for executing Franklin's contracts, requiring a surety deposit from the bank to assure reimbursement for any loss. With that remarkable step—taken before the bank was actually closed in October—the market calmed down. But the aftermath was a reduction in the volume of foreign exchange transactions estimated at between one-quarter to one-third and a decline in the volume of interbank redepositing which became even more marked during the first six months of 1975.

Dr. Arthur Burns remarked that had Franklin been allowed to fail in May instead of October, it would have shaken the financial system, world-wide. Of course that's what it did do. Dr. Burns should be understood to mean that it could have been much worse.

THE ABSENCE OF DATA ON FOREIGN EXCHANGE

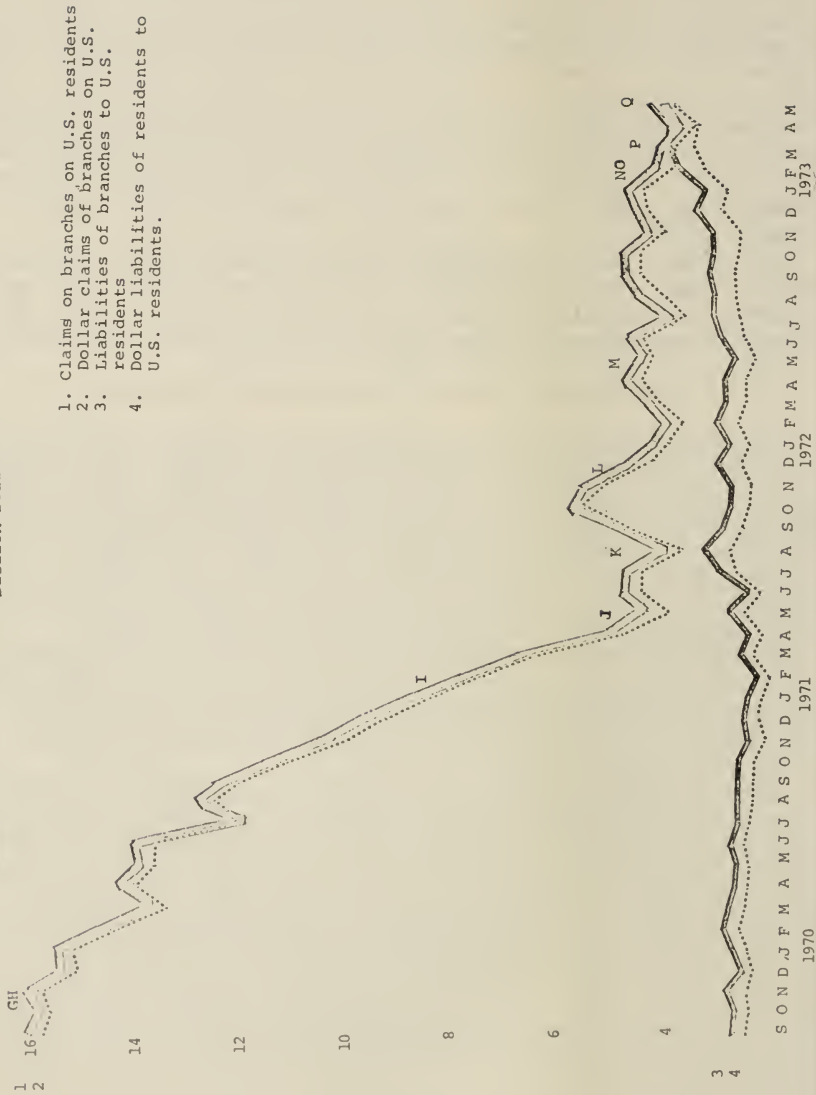
Absence of information is a general characteristic of international financial markets. Reports are published by some central banks on gross assets and liabilities of external banking offices and publicized Eurocurrency credits give some indication of where funds are flowing, but there is no publicly available information on foreign exchange markets and no good estimates of its gross size. Participants say it is smaller now than in 1973 and 1974 but these estimates are based on subjective experience and not data which has been collected.

In September 1973 Congress added an amendment to the legislation giving Congressional approval of the devaluation of the dollar which required banks to report foreign exchange transactions to the Treasury.¹ In February 1976, the Treasury was still perfecting the report forms and had collected no data.

After Franklin and Herstatt, the regulatory agencies became concerned and devised their own report forms but, as yet, no information on foreign exchange transactions of banks is made public. Up to 1974, futures contracts to buy and sell currencies were reported by banks for their foreign branches as memoranda items at year-end. But domestic offices were not required to include foreign exchange contracts among the contingency liabilities which they reported and so it was not possible to determine from this information the overall position of the bank. Moreover, these reports provided no break-down by currency or maturity and so neither the position of the individual bank nor the impact of transactions on exchange rates could be ascertained.

¹ Par Value Act (PL 93-110), September 21, 1973.

CHART 1
ASSETS & LIABILITIES OF FOREIGN BRANCHES TO U.S. RESIDENTS
Billion Dollars



The data in chart 1 are derived from the aggregate reports on branches of 12 multinational banks. For all its limitations, it does document the dramatic increase in foreign currency transactions of these banks from the beginning of 1972 through year-end 1974, the period following the first and second devaluations of the dollar, the advent of floating rates and, finally, the crisis following Franklin and Herstatt. Since the figures are based on year-end reports and only include contracts of foreign branches, they are probably greatly understated. Nevertheless, a gross volume of \$40 billion buys and \$40 billion sells for these 12 banks is evidence of how important this market has become.

Clearly the foreign exchange market is not one which should have been abandoned to self-regulation and lack of disclosure during these years. The rapidity of its growth should have been matched on the part of regulators with initiative and innovation in devising a system of monitoring these activities. Had such a system been in place, the excesses which destroyed Franklin could have been detected. In a system of self-regulation, it is not difficult for an individual bank to escape detection. Had all banks been monitored, the aberrant individual would have been caught because of its transactions with others.

TABLE 1.—FOREIGN EXCHANGE CONTRACTS OF FOREIGN BRANCHES OF 12 MULTINATIONAL BANKS

| | 1971 | | 1972 | | 1973 | | 1974 | |
|---|--------|--------|--------|--------|--------|--------|--------|--------|
| | Buy | Sell | Buy | Sell | Buy | Sell | Buy | Sell |
| Bank of America..... | 3,002 | 2,678 | 7,043 | 7,072 | 13,225 | 12,787 | 5,139 | 15,716 |
| Bankers Trust..... | 1,324 | 1,287 | 1,901 | 1,878 | 2,766 | 2,726 | 3,012 | 2,968 |
| Chase Manhattan..... | 2,078 | 1,777 | 3,734 | 3,263 | 4,060 | 3,725 | 5,189 | 4,621 |
| Chemical Bank..... | 1,861 | 1,741 | 2,211 | 2,107 | 2,251 | 2,260 | 2,025 | 2,000 |
| Continental Illinois National Bank..... | 1,924 | 1,879 | 1,661 | 1,602 | 2,156 | 2,105 | 1,419 | 1,288 |
| First National Bank, Boston..... | 25 | 26 | 1,158 | 1,171 | 5,083 | 4,948 | 2,821 | 2,813 |
| First National Bank of Chicago..... | 299 | 210 | 521 | 479 | 881 | 784 | 1,177 | 5,391 |
| First National City Bank..... | 2,241 | 1,912 | 3,513 | 3,032 | 3,902 | 3,910 | 6,131 | 1,167 |
| Manufacturers Hanover Trust..... | 370 | 344 | 539 | 503 | 1,252 | 1,283 | 1,198 | 1,183 |
| Marine Midland..... | 555 | 567 | 660 | 674 | 916 | 928 | 892 | 913 |
| Morgan Guaranty Trust..... | 2,045 | 2,040 | 3,882 | 3,853 | 4,265 | 4,265 | 3,785 | 3,775 |
| Wells Fargo Bank..... | 187 | 185 | 103 | 89 | 112 | 78 | 85 | 47 |
| Total..... | 15,911 | 14,646 | 26,926 | 25,723 | 40,869 | 39,799 | 32,873 | 41,882 |

Table 1 gives data on purchases and sales of foreign exchange by branches of the 12 multinational banks whose aggregate data are shown on chart 1. As this data indicates, one bank—Bank of America—has had a dominant role in terms of branch data throughout the period and is largely responsible for the “gap” in 1974 between buys and sells which is shown on the chart. Again, it is important to note that these are not sensitive data and does not include the whole position of any of the banks since contracts of the home office and Edge Act Corporations are not included.² This table is presented as an example of the inadequacy of existing information.

² Some regional banks do much of their foreign exchange business through Edge Corporations located in New York and many New York banks execute a substantial number of contracts at the home office.

TABLE 2.—*Outstanding foreign exchange contracts of Franklin National Bank to banks related to Sindona, March 1974*

| | |
|---------------------------------|----------------|
| Banka Unione: | |
| Apr. 30, 1974 | \$23, 200, 000 |
| Mar. 28, 1974 | 16, 000, 000 |
| Jan. 14, 1975 | 10, 000, 000 |
| Sep. 9, 1974 | 1, 172, 250 |
| Do | 3, 517, 500 |
| July 30, 1974 | 4, 500, 000 |
| Aug. 25, 1974 | 20, 000, 000 |
| June 7, 1974 | 8, 740, 000 |
| Feb. 10, 1975 | 4, 120, 000 |
| Sep. 9, 1974 | 4, 670, 000 |
| Oct. 1, 1974 | 16, 000, 000 |
| Do | 4, 625, 000 |
| Amincor: | |
| Oct. 1, 1974 | 22, 000, 000 |
| Do | 4, 625, 000 |
| Edilcentro: June 1974–Mar. 1975 | 163, 798, 000 |
| Total | 296, 967, 750 |

Source: Comptroller of the Currency.

Table 2 is included here to illustrate one of the problem areas in foreign exchange trading. The table lists outstanding contracts between Franklin National Bank and two foreign banks and a financial subsidiary also controlled by Michele Sindona. Since Franklin's capital was \$226 million at year-end 1973, these contracts were not only in excess of Franklin's legal limit on loans to one borrower—10%, or \$22.6 million—but were in excess of capital.

The "insider" character of these transactions is probably atypical but the fact that foreign exchange contracts with other individual banks exceed legal lending limits is not uncommon. The funds which Seattle First National Bank lost (but eventually recovered in part) in its dealings with Herstatt were more than 10% of its capital. All interbank transactions are free of the restraints of loan limits and this is now seen as a factor which increases their risk. Given that the number of participants in foreign exchange markets is much smaller than those who participate in other areas of the market, the probability that banks have high concentrations of contracts with other individual banks is very real. Thus, the credit risk in foreign exchange—the risk described above involving the failure of the other party to a transaction to deliver—is greater as the range of participants narrows and they are of larger size. In the event of a failure, a central bank would almost certainly have to intervene and assume contracts as the Federal Reserve did in the case of Franklin to prevent turmoil and possible failures and to restore confidence in international markets.

CONCLUSION

The *laissez faire* character of foreign exchange markets has been perpetuated by bank regulators who know too little about it to be able to determine whether and what form of regulation will be beneficial. They have focused on the need for adequate internal controls as the means for ensuring that foreign exchange operations will not threaten the soundness of banks. While these controls are necessary, they will not eliminate the threat to banks which is inherent in activities involving volatile, speculative markets.

The most obvious first step to take in regulating foreign exchange would be to extend limits on loans to one borrower to foreign exchange transactions, restricting the aggregate amount of contracts outstanding with a given customer or bank. Regulators have resisted this step because it might tend to hobble the overall volume of transactions since there are so few banks that make a market in foreign exchange. Suggestions that the overall foreign currency exposure of banks be limited in relation to capital have also been discounted for the same reasons.³

Such a view implies that the usual considerations relating to bank soundness should be waived for these few very large banks because their role in making this market has such obvious economic benefits. This view would carry more weight if more were known about foreign exchange markets: how big are they, whom do they serve, what portion of the market is trade-related and, of that portion, how much involves U.S. trade, how much trade between third countries, etc. In the absence of such information a regulatory decision to exempt these activities from the application of statutory restraints seems totally unjustified.

³ The views of regulators stated here are based on staff responses of inquiries as to why there is no extension of lending limits to foreign exchange transactions.

CHAPTER 8

TWELVE MULTINATIONAL BANKS

In 1966 there were only 12 U.S. banks with foreign branches. By year end 1974, 125 U.S. banks had branches outside the United States, 20 had 3 or more foreign branches and the 30 largest banks had multinational operations through networks of branches, subsidiaries and affiliates located in 102 countries throughout the world. Between 1966 and 1975, the circle of banks involved in international banking widened to include not only more American banks, but more foreign banks as well. The larger banks of all developed countries established operations in London, New York and other major financial centers and banks from developing countries also became participants in international financial activities.

Over this period of time, the 12 large U.S. banks which had developed multinational operations in the early 1960's continued to expand even as they shared the growing volume of international business with other banks. An expansion of international activity provided an outlet for growth for these banks whose domestic operations are constrained by geographic restrictions. Even so, they increased their share of total U.S. domestic assets over the period from 1971 to 1974 but increased even more their share of the combined total domestic and foreign branch assets (Table 1). As this indicates, international business has been the major growth area in banking. Growth has been encouraged by the absence of regulatory restraints.

TABLE 1.—DOMESTIC AND FOREIGN BRANCH ASSETS OF 12 MULTINATIONALS: THEIR SHARE OF TOTAL DOMESTIC ASSETS AND OF TOTAL DOMESTIC AND FOREIGN BRANCH ASSETS OF ALL U.S. BANKS, 1971-74

[In millions of dollars]

| | 1971 | | | | 1972 | | | |
|--|-----------------|----------------|------------------------------------|----------------|-----------------|----------------|------------------------------------|----------------|
| | Domestic assets | | Domestic and foreign branch assets | | Domestic assets | | Domestic and foreign branch assets | |
| | Shares | Total, percent | Shares | Total, percent | Shares | Total, percent | Shares | Total, percent |
| Bank of America..... | 24,952 | 3.9 | 36,476 | 5.2 | 28,214 | 3.8 | 37,947 | 4.7 |
| First National City Bank..... | 17,640 | 2.8 | 33,224 | 4.7 | 20,515 | 2.8 | 35,749 | 4.4 |
| Chase Manhattan..... | 18,481 | 2.9 | 27,653 | 3.9 | 23,242 | 3.1 | 33,320 | 4.1 |
| Manufacturers Hanover..... | 11,776 | 1.8 | 14,250 | 2.0 | 12,149 | 1.6 | 16,016 | 2.0 |
| Chemical Bank..... | 10,648 | 1.7 | 12,725 | 1.8 | 12,346 | 1.7 | 15,411 | 1.9 |
| Morgan Guaranty..... | 10,334 | 1.6 | 14,239 | 2.0 | 11,208 | 1.5 | 16,538 | 2.0 |
| Bankers Trust Co..... | 7,480 | 1.2 | 10,467 | 1.5 | 9,367 | 1.3 | 12,815 | 1.6 |
| Continental Illinois..... | 7,266 | 1.1 | 9,631 | 1.4 | 9,546 | 1.3 | 11,986 | 1.5 |
| First National City Bank, Chicago..... | 6,956 | 1.1 | 9,411 | 1.3 | 8,671 | 1.2 | 11,332 | 1.4 |
| Wells Fargo..... | 6,789 | 1.1 | 7,701 | 1.1 | 7,634 | 1.0 | 8,928 | 1.1 |
| First National Bank, Boston..... | 3,817 | .6 | 4,871 | .7 | 4,275 | .6 | 5,796 | .7 |
| Marine Midland..... | 3,147 | .5 | 4,457 | .6 | 3,185 | .4 | 4,850 | .6 |
| Total, all banks..... | 129,286 | 20.2 | 185,105 | 26.4 | 150,353 | 20.3 | 210,688 | 25.9 |
| | 640.3 | 100.0 | 701.6 | 100.0 | 739.0 | 100.0 | 812.5 | 100.0 |

| | 1973 | | | | 1974 | | | |
|--|-----------------|----------------|------------------------------------|----------------|-----------------|----------------|------------------------------------|---------------|
| | Domestic assets | | Domestic and foreign branch assets | | Domestic assets | | Domestic and foreign branch assets | |
| | Shares | Total, percent | Shares | Total, percent | Shares | Total, percent | Shares | Total percent |
| Bank of America..... | 32,270 | 3.9 | 46,606 | 4.9 | 36,492 | 4.0 | 56,915 | 5.3 |
| First National City Bank..... | 24,195 | 2.9 | 45,067 | 4.7 | 28,871 | 3.1 | 58,759 | 5.5 |
| Chase Manhattan..... | 23,106 | 2.8 | 39,380 | 4.1 | 27,299 | 3.0 | 42,861 | 4.0 |
| Manufacturers Hanover..... | 13,498 | 1.6 | 19,508 | 2.0 | 18,918 | 2.1 | 25,638 | 2.4 |
| Chemical Bank..... | 14,207 | 1.7 | 18,572 | 1.9 | 15,345 | 1.7 | 22,703 | 2.1 |
| Morgan Guaranty..... | 13,150 | 1.6 | 20,188 | 2.1 | 16,241 | 1.8 | 25,564 | 2.4 |
| Bankers Trust Co..... | 11,769 | 1.4 | 17,076 | 1.8 | 12,924 | 1.4 | 19,072 | 1.8 |
| Continental Illinois..... | 12,197 | 1.5 | 15,803 | 1.7 | 14,243 | 1.5 | 18,593 | 1.7 |
| First National City Bank, Chicago..... | 11,215 | 1.3 | 14,979 | 1.6 | 13,028 | 1.4 | 19,349 | 1.8 |
| Wells Fargo..... | 9,417 | 1.1 | 11,658 | 1.2 | 10,658 | 1.2 | 12,603 | 1.2 |
| First National Bank, Boston..... | 4,879 | .6 | 7,676 | .8 | 5,454 | .6 | 8,408 | .8 |
| Marine Midland..... | 3,363 | .4 | 6,552 | .7 | 4,491 | .5 | 7,136 | .7 |
| Total, all banks..... | 173,266 | 20.7 | 263,065 | 27.5 | 203,964 | 22.2 | 317,601 | 29.6 |
| | 835.2 | 100.0 | 957.0 | 100.0 | 919.6 | 100.0 | 1,071.2 | 100.0 |

Source: Reports of condition supplied by Federal Reserve Board and the Comptroller of the Currency; Federal Reserve Bulletin; compiled by committee staff

While as a group these twelve banks successfully outperformed other U.S. competitors without equally extensive international activity, they lost some ground to those foreign banks which had also made large commitments to international activities. This is reflected in Table 2 which indicates that, aside from the top 3 U.S. banks, only one of the 12 multinational banks improved its rank between 1970 and 1974.¹ This bank, (First National Bank of Chicago, is one which has aggressively expended its international operations, including its foreign branch network. At year end 1974, only 18 U.S. banks were in the top 100 banks in the Free World—there were 22 in the top 100 in 1970—while 47 foreign banks with banking operations in the United States were among the top 100.

¹ While devaluation of the dollar is responsible for some of the shift in rank, the trend was already evident in 1970 and 1971.

The degree to which 12 banks have dominated the international banking activity of U.S. banks is shown in Tables 3 and 4. Table 3 provides data on their shares of the total number of foreign branches and total branch assets for 1966, and for 1971 through 1974. Table 4 gives data on the share of total assets of Edge and Agreement Corporations held by the 12 banks at year-end 1973, the latest period for which this data is available. Both tables indicate that these 12 banks conduct roughly three-quarters of the International banking activity of U.S. banks.

TABLE 2.—SHIFTS IN WORLDWIDE RANK OF 12 MULTINATIONAL BANKS

| Name of bank | 1970 | 1974 |
|--|------|------|
| Bank of America..... | 1 | 1 |
| First National City Bank..... | 3 | 2 |
| Chase Manhattan..... | 2 | 3 |
| Manufacturers Hanover..... | 6 | 13 |
| Chemical Bank..... | 14 | 26 |
| Morgan Guaranty..... | 13 | 18 |
| Bankers Trust Co..... | 21 | 29 |
| Continental Illinois..... | 26 | 34 |
| First National City Bank, Chicago..... | 33 | 32 |
| Wells Fargo..... | 44 | 64 |
| First National Bank, Boston..... | 68 | 88 |
| Marine Midland..... | 84 | 90 |

Note: Ranked by size of deposits, Dec. 31, 1970, and Dec. 31, 1974.

Source: American Banker.

Table 3 documents the decline in the share of branch offices and branch assets of the 12 multinational banks since 1966, as a number of other U.S. banks established branches overseas. A further breakdown of the figures indicates, however, that while the aggregate share of the top 3 banks declined from 67 percent of total assets in 1966 to 54% in 1971 and declined further to 43.5% in 1974, the other 9 banks have retained about a one-third share of total assets over the entire period from 1966. Their one-third share of the combined total of all 12 banks in 1966 had risen (by 1972) to 42% and has remained at that level.

The data on assets of Edge and Agreement Corporations of the 12 banks (Table 4) provides some information on the preferences of individual banks in handling their overseas activities. As discussed elsewhere, Edge Corporations serve several functions for the parent bank. They have been the principle vehicle for overseas investments and in some cases are used only for that purpose. A substantial portion of the assets of most Edge and Agreement Corporations are investments in overseas subsidiaries and affiliates.

TABLE 3.—SHARE OF TOTAL NUMBER OF FOREIGN BRANCHES AND OF TOTAL FOREIGN BRANCH ASSETS¹ OF 12 MULTINATIONAL BANKS/DEC. 31

| | 1966 | | | | 1971 | | | |
|-----------------------------------|--------------------|------------------|---------------|------------------|--------------------|------------------|---------------|------------------|
| | Number of branches | Percent of total | Branch assets | Percent of total | Number of branches | Percent of total | Branch assets | Percent of total |
| Bank of America..... | 44 | 18.0 | 2,035 | 16.4 | 96 | 16.6 | 11,524 | 17.2 |
| First National City Bank..... | 124 | 50.8 | 3,439 | 27.8 | 237 | 41.1 | 15,583 | 23.2 |
| Chase Manhattan..... | 42 | 17.2 | 2,827 | 22.8 | 81 | 14.0 | 9,172 | 13.7 |
| Manufacturers Hanover..... | 2 | .8 | 715 | 5.8 | 4 | .7 | 2,473 | 3.7 |
| Morgan Guaranty..... | 2 | 2.5 | 1,332 | 10.8 | 11 | 1.9 | 3,905 | 5.8 |
| Chemical Bank..... | 6 | .8 | 216 | 1.7 | 7 | 1.2 | 2,077 | 3.1 |
| Bankers Trust Co..... | 2 | .6 | 610 | 4.9 | 4 | .7 | 2,986 | 4.5 |
| Continental Illinois..... | 2 | 1.6 | 217 | 1.8 | 10 | 1.7 | 2,364 | 3.5 |
| First National Bank, Chicago..... | 2 | .8 | 401 | 3.2 | 13 | 2.3 | 2,455 | 3.7 |
| Wells Fargo ² | 1 | .4 | 150 | 1.2 | 2 | .5 | 2,911 | 4.4 |
| Marine Midland..... | 1 | .4 | 84 | .7 | 3 | .3 | 1,310 | 2.0 |
| First National Bank, Boston..... | 12 | 4.9 | 356 | 2.9 | 23 | 4.0 | 1,054 | 1.6 |
| Total 12 banks..... | 242 | 99.2 | 12,382 | 100.0 | 491 | 85.1 | 55,815 | 83.2 |
| Total member banks..... | 244 | 100.0 | 12,384 | 100.0 | 577 | 100.0 | 67,054 | 100.0 |

| | 1972 | | | | 1973 | | | | 1974 | | | |
|-----------------------------------|--------------------|------------------|---------------|------------------|--------------------|------------------|---------------|------------------|--------------------|------------------|---------------|------------------|
| | Number of branches | Percent of total | Branch assets | Percent of total | Number of branches | Percent of total | Branch assets | Percent of total | Number of branches | Percent of total | Branch assets | Percent of total |
| Bank of America..... | 101 | 16.1 | 9,733 | 12.4 | 103 | 14.7 | 14,336 | 11.8 | 104 | 14.2 | 20,422 | 13.4 |
| First National City Bank..... | 232 | 27.0 | 15,234 | 19.5 | 239 | 34.2 | 20,872 | 17.1 | 248 | 33.9 | 29,888 | 20.0 |
| Chase Manhattan..... | 93 | 14.8 | 10,078 | 12.9 | 103 | 14.7 | 16,274 | 13.4 | 104 | 14.2 | 15,562 | 10.2 |
| Manufacturers Hanover..... | 4 | .5 | 3,847 | 4.9 | 6 | .8 | 6,010 | 4.9 | 8 | 1.1 | 6,721 | 4.4 |
| Morgan Guaranty..... | 12 | 1.9 | 5,330 | 6.8 | 12 | 1.7 | 7,037 | 5.8 | 12 | 1.6 | 9,323 | 6.1 |
| Chemical Bank..... | 9 | 1.4 | 3,055 | 3.9 | 8 | 1.1 | 4,365 | 3.6 | 11 | 1.5 | 7,359 | 4.8 |
| Bankers Trust Co..... | 4 | .6 | 3,488 | 4.4 | 6 | .8 | 5,307 | 4.4 | 7 | 1.0 | 6,148 | 4.0 |
| Continental Illinois..... | 10 | 1.6 | 2,440 | 3.1 | 15 | 2.1 | 3,606 | 3.0 | 16 | 2.2 | 4,350 | 2.9 |
| First National Bank, Chicago..... | 15 | 2.4 | 2,652 | 3.4 | 16 | 2.3 | 3,766 | 3.1 | 23 | 3.1 | 6,321 | 4.2 |
| Wells Fargo ² | 3 | .5 | 1,294 | 1.7 | 4 | .5 | 2,241 | 1.8 | 3 | .4 | 1,945 | 1.3 |
| Marine Midland..... | 3 | .5 | 1,655 | 2.1 | 5 | .6 | 3,189 | 2.6 | 6 | .8 | 2,645 | 1.7 |
| First National Bank, Boston..... | 26 | 4.1 | 1,521 | 1.9 | 28 | 4.0 | 2,797 | 2.3 | 29 | 4.0 | 2,954 | 1.9 |
| Total 12 banks..... | 512 | 81.17 | 60,357 | 77.2 | 585 | 83.7 | 89,798 | 73.7 | 562 | 76.8 | 113,638 | 74.8 |
| Total member banks..... | 627 | 100.0 | 78,202 | 100.0 | 699 | 100.0 | 121,886 | 100.0 | 732 | 100.0 | 151,905 | 100.0 |

¹ Assets in millions of dollars.² 1966 data for Irving Trust Co.

Edge Corporations are permitted in states outside the state in which the parent bank is located and can therefore transact international business for customers throughout the country and attract domestic business for the parent bank. The Edge subsidiaries of some regional banks act as adjuncts of their international departments, conducting international banking and foreign exchange operations in New York. Some of the corporations listed in Table 4 with substantial assets have both international loan and investment portfolios.

GEOGRAPHIC DISTRIBUTION OF OVERSEAS BRANCHES

Data on the geographic distribution of branches of individual banks makes it possible to discern some patterns of activity, but due to the absence of data on assets of individual branches, it is difficult to verify those patterns. As noted above, the largest number of branches of U.S. banks are in Latin America although a relatively small share of total assets are held in these branches. The more detailed information in Table 5 reveals that only 4 U.S. banks have extensive branch networks in this area, that these banks were already well established in Latin America in 1966, and that one other large bank, the First National Bank of Chicago, opened branches there after 1966.

TABLE 4.—ASSETS OF EDGE AND AGREEMENT CORPORATIONS OF 12 BANKS, DEC. 31, 1973

| | Assets | Percent total assets |
|--|--------------------|----------------------------|
| Bank of America..... | \$1, 596, 038, 164 | 23. 1 |
| First National City Bank..... | 429, 248, 767 | 6. 2 |
| Chase Manhattan..... | 753, 211, 650 | 10. 9 |
| Manufacturers Hanover..... | 792, 028, 344 | 11. 5 |
| Morgan Guaranty..... | 90, 384, 392 | 1. 3 |
| Chemical Bank..... | 71, 193, 305 | 1. 0 |
| Bankers Trust..... | 115, 687, 613 | 1. 7 |
| Continental Illinois..... | 857, 584, 250 | 12. 4 |
| First National Bank of Chicago..... | 285, 817, 033 | 4. 1 |
| Wells Fargo National Bank..... | 169, 190, 774 | 2. 4 |
| Marine Midland..... | 24, 449, 032 | 0. 4 |
| First National Bank Boston..... | 181, 674, 214 | 2. 6 |
| Total 12 banks..... | 5, 366, 507, 538 | 77. 7 |
| Total all edge and agreement corporations..... | 6, 909, 090, 809 | 100. 0 |

The First National Bank of Chicago has been one of the more aggressive banks in expanding its branch network, and has focused its efforts on expanding operations in continental Europe. A number of other banks among the 12 have also established European branches since 1966 and the three largest banks more than doubled the number of their continental branches between 1966 and 1971. Since 1971, the number has remained relatively stable as it has also in the United Kingdom. As noted above, the proportion of total branch assets held in London has declined while investments in U.K. subsidiaries and affiliates have greatly increased.

Several of the 12 multinational banks had already established branches in the Bahamas before 1969 when the proliferation of "shell" branches there and in the Cayman Islands began. That the large banks have so few branches in the Caribbean reflects Federal Reserve Board policy of limiting banks to one shell branch. These banks have, however, more than half of the \$40 billion held in branches in these locations.

The policy of the Japanese government in limiting foreign bank operations is revealed in the data on branches of the 12 multinational banks in Japan. Since 1971, U.S. banks have been limited to single *de novo* branches and there has been no expansion in the number of branches of the three largest banks. There are, however, a total of 31 U.S. bank branches in Japan, one-third of which are branches of banks other than the 12 multinational banks.² Many of these banks have branches in other parts of the Far East as well, a number of them in Hong Kong and Singapore. By contrast, the 3 largest banks continue to dominate branch activity in the Near East and Africa. Only 2 other banks among the 12 multinationals have established new branches in this area.

² Total assets of branches of U.S. banks in Japan were \$10.3 billion in August 1975. Branches and agencies of Japanese banks had \$19.8 billion of assets in the United States in September 1975.

| | United Kingdom and Ireland | | | | Continental Europe | | | | Bahamas | | | | Latin America | | | | Far East | | | |
|----------------------------------|----------------------------|------|------|--|-------------------------------------|------|------|--|----------------|------------------|----------------|------------------|----------------|------------------|----------------|------------------|----------------|------------------|----------------|------------------|
| | 1966 | 1971 | 1975 | | 1966 | 1971 | 1975 | | 1971 | 1975 | | | 1966 | 1971 | 1975 | | 1966 | 1971 | 1975 | |
| 1. Bank of America, S.F. | 2 | 6 | 6 | | 7 | 14 | 14 | | | | | | 9 | 40 | 43 | | 21 | 23 | 23 | 4 |
| 2. Chase Manhattan, N.Y. | 3 | 3 | 3 | | 3 | 14 | 13 | | 6 | 7 | | | 14 | 22 | 34 | | 8 | 12 | 21 | 2 |
| 3. First National City, N.Y. | 3 | 4 | 5 | | 11 | 24 | 24 | | 2 | 3 | | | 67 | 140 | 132 | | 26 | 32 | 39 | 4 |
| Subtotal | 7 | 13 | 14 | | 21 | 52 | 51 | | 8 | 10 | | | 90 | 202 | 209 | | 55 | 67 | 83 | 10 |
| 4. Manufacturers Hanover, N.Y. | 1 | 2 | 2 | | | 1 | 3 | | | | | | 1 | | | | | | | 1 |
| 5. Chemical Bank, N.Y. | 1 | 2 | 2 | | | 4 | 5 | | | | | | | | | | | | | 1 |
| 6. Morgan Guaranty | 4 | 2 | 3 | | 4 | 7 | 7 | | 1 | 1 | | | | | | | | | | 1 |
| 7. Bankers Trust, N.Y. | 1 | 2 | 2 | | | 1 | 2 | | 1 | | | | | | | | | | | 1 |
| 8. Continental Illinois, Chicago | 2 | 2 | 2 | | | 6 | 9 | | | | | | | | | | 2 | | | 2 |
| 9. First National Bank, Chicago | 1 | 2 | 2 | | 1 | 7 | 12 | | | | | | 3 | 3 | | | | 1 | | 1 |
| 10. Wells Fargo, S.F. | 3 | 2 | 2 | | | 1 | 1 | | | | | | | | | | | | | 1 |
| 11. First National Bank, Boston | 1 | 1 | 3 | | 0 | 1 | 4 | | 1 | 1 | | | 10 | 20 | 24 | | | | | 1 |
| 12. Marine Midland | | | | | | | | | | | | | | | | | | | | 1 |
| Subtotal | 15 | 15 | 22 | | 5 | 28 | 45 | | 5 | 8 | | | 10 | 23 | 27 | | 2 | 1 | 6 | 5 |
| Total, multinationals | 22 | 28 | 36 | | 26 | 80 | 96 | | 13 | 18 | | | 100 | 225 | 236 | | 57 | 68 | 89 | 15 |
| Total, member bank branches | 22 | 48 | 58 | | 26 | 80 | 108 | | 73 | 123 | | | 102 | 229 | 241 | | 57 | 68 | 125 | 15 |
| | Near East and Africa | | | | U.S. overseas and trust territories | | | | 1966 | | | | 1971 | | | | 1975 | | | |
| | 1966 | 1971 | 1975 | | 1966 | 1971 | 1975 | | Total branches | Percent of total | Total branches | Percent of total | Total branches | Percent of total | Total branches | Percent of total | Total branches | Percent of total | Total branches | Percent of total |
| 1. Bank of America, S.F. | 2 | 1 | 1 | | 3 | 8 | 9 | | 44 | 18 | | | 96 | 17 | | | 100 | | | 14 |
| 2. Chase Manhattan, N.Y. | 2 | 4 | 4 | | 13 | 17 | 22 | | 42 | 17 | | | 80 | 14 | | | 106 | | | 14 |
| 3. First National City, N.Y. | 4 | 11 | 13 | | 13 | 20 | 23 | | 124 | 51 | | | 237 | 41 | | | 243 | | | 33 |
| Subtotal | 8 | 16 | 18 | | 29 | 45 | 54 | | 210 | 86 | | | 413 | 72 | | | 449 | | | 61 |
| 4. Manufacturers Hanover, N.Y. | | | 1 | | | | | | 1 | | | | 4 | 1 | | | 8 | | | 7 |
| 5. Chemical Bank, N.Y. | | | | | | | | | 1 | | | | 7 | 1 | | | 11 | | | 9 |
| 6. Morgan Guaranty | | | | | | | | | 4 | 2 | | | 11 | 2 | | | 12 | | | 10 |
| 7. Bankers Trust, N.Y. | | | | | | | | | 1 | | | | 4 | 1 | | | 7 | | | 16 |
| 8. Continental Illinois, Chicago | | | | | | | | | 4 | 2 | | | 10 | 2 | | | 16 | | | 13 |
| 9. First National Bank, Chicago | | | 3 | | | | | | 3 | 1 | | | 13 | 2 | | | 26 | | | 21 |
| 10. Wells Fargo, S.F. | | | | | | | | | 13 | 5 | | | 2 | | | | 3 | | | 2 |
| 11. First National Bank, Boston | | | | | | | | | 1 | | | | 23 | 4 | | | 30 | | | 25 |
| 12. Marine Midland | | | | | | | | | | | | | 3 | 1 | | | 9 | | | 7 |
| Subtotal | | | 4 | | | | | | 32 | 13 | | | 77 | 13 | | | 122 | | | 17 |
| Total, multinationals | 8 | 16 | 22 | | 29 | 45 | 54 | | 242 | 99 | | | 490 | 85 | | | 571 | | | 78 |
| Total, member bank branches | 8 | 17 | 22 | | 29 | 29 | 47 | | 244 | 100 | | | 577 | 100 | | | 732 | | | 100 |

*Figures for Dec. 31, 1966, Dec. 31, 1971, June 30, 1975.

1 1966 figure for Irving Trust rather than Wells Fargo.

2 Includes Japan.

As Table 5 indicates, the 3 largest U.S. banks have truly global branch networks, but they are the only American banks which do. Foreign branch operations for other banks are an important share of their total business, but for these 3 banks, with 43% of total branch assets and more than one-third of their assets in overseas offices, international business has probably become a dominant factor in their operations.

RATIOS OF FOREIGN ASSETS OF TOTAL ASSETS

Bank of America has added only 4 branches to its entire branch network since 1971 as compared with 11 for First National City Bank and 23 for Chase Manhattan. But the percentage of total assets held by Bank of America in foreign branches has risen 4.3% as compared with a 4% increase for First National City and 3.1% for Chase Manhattan. The average ratio of foreign assets to total assets for all 12 multinational banks has hovered around 30% since 1971 (Table 6). There was a drop in the average in 1972 to 28.6% which reflects the fact that the share of total assets held overseas by 6 banks declined while the foreign share increased for the other six. Foreign branch assets for all banks grew 30% in 1972, but domestic business also grew very rapidly and outstripped international operations for some banks. This was also a period of major expansion in banks' investments in foreign subsidiaries and affiliates and in their domestic holding company affiliations, and a year in which international activity slowed for a brief period.

The extraordinary increase in U.S. banks' foreign branch assets (53%) in 1973 is reflected in the data for these 12 banks as well. The average ratio of branch-to-total assets rose to 34%, a 5½% increase over the previous year. For two banks—Chase Manhattan and First National Bank of Boston—the increase in the ratio was over 10% and for Marine Midland Bank—New York it was 14.4%. Events in the following year proved two of these banks to have been overextended. Marine Midland's ratio of foreign branch/total assets dropped 11.6% and branch assets shrank from \$3.2 billion in 1973 to \$2.6 billion in 1974. Chase Manhattan's ratio fell 5% and branch assets decreased from \$16.3 billion to \$15.6 billion.

There were significant differences in the shifts in the foreign branch/total asset ratios of these 12 banks in 1974. Ratios for seven of the banks rose, including those for Bank of America which increased branch assets \$6 billion and First National City Bank with an increase of \$9 billion. Although the dollar amounts were smaller, the increase in branch assets as a share of total assets for Chemical Bank (8.9%) and First National Bank of Chicago (7.9%) were more dramatic in a year of crisis in international markets.

TABLE 6.—ASSETS AND LIABILITIES OF FOREIGN BRANCHES OF 12 MULTINATIONAL BANKS AS PERCENTAGES OF THEIR TOTAL ASSETS/LIABILITIES¹

| Name of bank | 1971 | 1972 | 1973 | 1974 |
|--|------|------|------|------|
| Bank of America..... | 31.6 | 25.6 | 30.8 | 35.9 |
| First National City Bank..... | 46.9 | 42.6 | 46.3 | 50.9 |
| Chase Manhattan Bank..... | 33.2 | 30.2 | 41.3 | 36.3 |
| Manufacturers Hanover..... | 17.4 | 24.0 | 30.8 | 26.2 |
| Morgan Guaranty..... | 27.4 | 32.2 | 34.8 | 36.5 |
| Chemical Bank..... | 16.3 | 19.9 | 23.5 | 32.4 |
| Bankers Trust Co..... | 28.5 | 27.2 | 31.1 | 32.2 |
| Continental Illinois National Bank & Trust Co..... | 24.5 | 20.4 | 22.8 | 23.4 |
| First National Bank, Chicago..... | 26.1 | 23.5 | 25.1 | 33.0 |
| Wells Fargo Bank..... | 11.8 | 14.5 | 19.2 | 15.4 |
| Marine Midland Bank, New York..... | 29.4 | 34.3 | 48.7 | 37.1 |
| First National Bank, Boston..... | 21.6 | 26.2 | 36.4 | 35.1 |
| Average, 12 banks..... | 30.2 | 28.6 | 34.1 | 32.9 |

¹These 12 banks have had 3 or more branches since 1971. Foreign branch data for other individual banks has not been available before 1974.

Source: Federal Reserve Board.

One can assume that some of these 12 banks received substantial amounts of the OPEC funds which came into the Eurodollar market. Other banks which did not attract as large a share of the OPEC deposits as needed to replace a declining volume of interbank liabilities replaced some of the run-off with borrowings from the parent. Others may have chosen to wind down their activities by withdrawing some of the funds they had placed with other Eurobanks, thus contributing to the shrinkage in the interbank market as they reacted to it.

FOREIGN EARNINGS

Before 1976, banks were required to report only net foreign income to regulatory authorities rather than integrate operating income and expenses from foreign sources into that reported for domestic offices. Different banks had different methods of reporting income and of allocating costs. Some income reports included international operations conducted in the United States by the home office or Edge Act subsidiaries and some did not. Net income from subsidiaries or from foreign exchange trading was not reported if less than 25% of total operating income. Bank of America reported net foreign income before taxes and before allocating costs. This has inflated its ratio of foreign to total income as noted on Table 7. Table 7 is, therefore, a not too reliable guide to the importance of foreign earnings for individual banks. Nevertheless, it gives some indication of trends over the period covered and, in most cases, is close to figures given by the banks in their annual reports.

TABLE 7.—NET FOREIGN INCOME OF 12 MULTINATIONAL BANKS AS A PERCENTAGE OF TOTAL NET INCOME¹

| Name of bank | 1971 | 1972 | 1973 | 1974 |
|---|------------------|------|------|-------------------|
| 1. Bank of America NA, San Francisco..... | 16.8 | 53.0 | 56.5 | ² 85.9 |
| 2. First National City Bank, New York..... | 45.8 | 63.1 | 61.5 | 68.1 |
| 3. Chase Manhattan Bank, New York..... | 19.7 | 28.2 | 42.6 | 41.4 |
| 4. Manufacturers Hanover Trust Co., New York..... | 34.5 | 46.8 | 44.6 | 52.7 |
| 5. Morgan Guaranty Trust Co., New York..... | 15.4 | 27.7 | 32.1 | 20.5 |
| 6. Chemical Bank, New York..... | 4.2 | 6.0 | 4.2 | 20.8 |
| 7. Bankers Trust Co., New York..... | 24.9 | 38.4 | 80.5 | 48.3 |
| 8. Continental Illinois National Bank & Trust Co., Chicago..... | 4.8 | 15.9 | 18.2 | 15.6 |
| 9. First National Bank, Chicago..... | 14.7 | 22.4 | 21.1 | 17.0 |
| 10. Wells Fargo Bank NA, San Francisco..... | (³) | 6.6 | 21.4 | 11.9 |
| 11. Marine Midland Bank, New York..... | 51.6 | 58.8 | 78.7 | ⁴ 87.3 |
| 12. First National Bank, Boston..... | 17.6 | 40.3 | 37.5 | 42.1 |
| Average, 12 banks..... | 22.7 | 33.9 | 41.6 | 42.6 |

¹ Income reported varies from bank to bank and may not include income from overseas branches or subsidiaries if less than 25 percent of total operating income. In some cases, foreign income includes net earnings on foreign exchange operations if in excess of 25 percent.

² An explanation of the data for this bank is given in the text. The bank reported net foreign income as a percentage of total net income of 25 percent in 1971, 28 percent in 1972, 32 percent in 1973 and 39 percent in 1974.

³ Figures not available.

⁴ Includes foreign exchange profits which is in excess of 25 percent of total operating income and net income from foreign branches and Edge Act subsidiaries.

Source: Consolidated Report of Income. Compiled by committee staff; Banking, Currency and Housing Committee.

The Federal Reserve Board has provided aggregate figures on the earnings of the 30 largest banks at year-end 1974, included in Table 8. As this table indicates, the bulk of the assets and income of these banks is derived from their branches. Table 4 in the section on overseas investments indicates that the rate of return for the branches as a percentage of total assets is 0.50 while rates of return for foreign subsidiaries—0.30 for banking subsidiaries, 0.45 for finance companies, and 0.50 for leasing companies—is lower.

The 30 largest multinational banks has a far lower rate of return on assets (foreign and domestic) than the average for all member banks at year-end 1974—0.49% as compared with 0.78%. The rate of return on total assets of insured U.S. commercial banks has been approximately 0.79% since 1968. Most multinational banks did not in fact report substantially lower profits in 1974. Therefore, data on the rate of return on assets is more an indication of the proportion of their income which is derived from fees and of the degree to which their activities have departed from the traditional commercial banking business conducted by the majority of U.S. banks.

TABLE 8.—INVESTMENTS, ASSETS, AND INCOME OF FOREIGN BRANCHES AND SUBSIDIARIES OF 30 LARGEST BANKS, 1974

[In millions of dollars and as percent of total]

| | Overseas offices | | Amount invested | | Assets | | Net income | |
|-----------------------------------|------------------|------------------|------------------|------------------|-----------|------------------|------------|------------------|
| | Number | Percent of total | Amount | Percent of total | Amount | Percent of total | Amount | Percent of total |
| Branches..... | 616 | 66.5 | (¹) | (¹) | \$132,546 | 85.4 | \$663 | 90.2 |
| Bank subsidiaries..... | 122 | 13.2 | \$550 | 69.4 | 19,910 | 12.8 | 59 | 8.0 |
| Finance company subsidiaries..... | 156 | 16.8 | 228 | 28.8 | 2,650 | 1.7 | 12 | 1.6 |
| Other subsidiaries..... | 33 | 3.6 | 14 | 1.8 | 678 | 0 | 1 | 0 |
| Total..... | 927 | 100.0 | 792 | 100.0 | 155,238 | 100.0 | 735 | 100.0 |

¹ Not applicable.

Source: Federal Reserve Board.

FOREIGN LOANS OF MULTINATIONAL BANKS

In March 1976, the Federal Reserve Board provided data on foreign claims and liabilities of foreign branches of the 21 largest banks to the Subcommittee on Multinational Corporations of the Senate Foreign Relations Committee. The banks covered by this data are not the same as those included in data used here. However the six largest banks in both samples are the same.

The data were collected to indicate the degree of "exposure" of these banks to individual countries in terms of credits extended and to determine whether or not concentrations of deposits of Oil Producing Countries create undue risks for banks. A Federal Reserve staff memorandum accompanying the data minimized the risk by noting that dollar deposits withdrawn from U.S. banks and placed in foreign banks would almost certainly be recaptured by American banks through the interbank market and that attempts to convert dollar holdings to holdings in other currencies would have exchange rate effects which would result in losses in the value of the holdings and so dissuade OPEC depositors from this course of action.

But, despite this disclaimer or risk, the data are disturbing. The exchange rate effects described could only occur because the size of the holdings is so large. As the memorandum notes, 78 percent of OPEC deposits in the branches of the 21 banks surveyed, are deposits in the 6 largest banks. The aggregate for these banks is \$11.3 billion, 41% of the branch deposits reported here and 5.7% of their total deposits. Thus the problem of concentration involves the fact that both the holders of these dollar assets and those who are liable for them are very few in number.¹ As a result, the notion that the international financial market is a free market—or that it is even a private market—is no longer viable. It is, instead, a market which can be influenced or perhaps even dominated by political considerations in which U.S. public policy has only an indirect input.

The same comments apply to an analysis of the credits extended to individual countries. It is difficult to make a comprehensive analysis of this data because it is incomplete but, again, the pattern is one of concentration of loans to a few countries by a few banks. A more detailed discussion of country loans is included elsewhere, but it should be noted that 65% of the claims reported were held by the 6 largest banks.

Another disturbing aspect of the data is the discrepancy between total claims and liabilities. The staff memorandum offers no explanation for the gap between foreign borrowers and depositors but, as discussed elsewhere, a substantial proportion of foreign branch liabilities were provided by U.S. residents in 1975. The break-down in Table 9 reveals that the 6 largest banks got the bulk of foreign deposits while proportionately the 9 smallest in the group got the least. Thus one can infer that the branches of these 9 banks are most dependent on funds provided by the parent bank and other U.S. residents to support their foreign credits. This is a factor which could affect the ability or willingness of these banks to increase their foreign credits and thus further reduce their share of the market. Since the concen-

¹ Although data is given for six banks, it is by no means evenly distributed among them. The increases in assets/liabilities in 1974 indicate that Bank of America and Citibank may hold the bulk of OPEC deposits.

tration of OPEC deposits in a few banks is clearly related to this development, it can be said to have the effect of reducing competition in international financial markets.

TABLE 9.—U.S. BANK LIABILITIES TO RESIDENTS OF SELECTED FOREIGN COUNTRIES AS OF DEC. 31, 1975

[In millions of dollars]

| | Total | Percent of liabilities payable in 30 days or less | Percent of liabilities payable in more than 30 days |
|----------------------|--------|--|---|
| Group 1: | | | |
| OPEC countries..... | 13,811 | 44.9 | 55.9 |
| Other countries..... | 13,042 | 45.3 | 54.7 |
| Group 2: | | | |
| OPEC countries..... | 2,786 | 45.2 | 54.8 |
| Other countries..... | 2,969 | 49.9 | 50.0 |
| Group 3: | | | |
| OPEC countries..... | 1,554 | 48.1 | 51.9 |
| Other countries..... | 2,118 | 29.0 | 71.0 |
| Total: | | | |
| OPEC countries..... | 18,151 | 45.3 | 55.0 |
| Other countries..... | 18,129 | 44.2 | 55. |

Note: These liabilities include large interbank borrowings and deposits. Group 1 includes the 6 largest U.S. banks; group 2, the 2d 6 largest; and group 3, 9 other banks.

Source: Federal Reserve Board. Information collected for the Honorable Frank Church, chairman of the Subcommittee on Multinational Corporations; Committee on Foreign Relations, U.S. Senate.

It is beyond the scope of this paper to explore possible remedies for the problem to which the Senate Subcommittee has called attention. It is largely a political problem but it also has serious implications for bank supervision and regulation. The most obvious remedy is to suggest that it should be U.S. policy to encourage a redistribution of these liabilities to a wider group of banks and non-bank holders. It does seem remarkable that a narrow sector of the private banking system has been permitted or encouraged to assume quasi-governmental functions and that so much control over a financial market which is so important to so many nations has been concentrated in so few hands.

CHAPTER 9

SOME SPECIAL PROBLEMS

Recently there has been renewed concern with "country loans"—i.e., loans made to a specific government or government backed entities. The first section of this chapter attempts to explain some of the reasons why so much lending by banks to countries—especially to developing countries—is seen as questionable. It is followed by a brief exploration of potential problems which could develop as a result of an increase in term lending by foreign branches of U.S. banks. Finally, the decline in capital ratios of large multinational banks is discussed.

COUNTRY LOANS

During hearings on international aid proposals for less developed countries (LDC's) in July 1955, then Secretary of the Treasury George M. Humphrey suggested that emphasis should be shifted from public financing of development programs to encouraging private flows of funds overseas.¹ Data on the distribution of branch assets by geographic region indicates, however, that there was very little lending to less developed countries before the 1970's. Perhaps it was unrealistic to suppose that encouraging private flows of funds overseas would further the cause of redistributing capital and income to these countries. In any event, the flow of funds through U.S. banks has been to the money markets and until recently, the principal users of those funds have been developed countries.

Before the 1970's the principal borrowers from U.S. bank's foreign branches were private corporations—mostly U.S. based multinationals—and foreign banks which used the funds to finance private borrowers in their domestic markets. In the early 1970's, loans to less developed countries were made in the form of direct loans to governments or central banks or loans to development institutions which carried actual or implied government guarantees.² Loans were also extended to developed countries to finance local government units or state-owned entities. Some of the loans to foreign banks were also a channel for government lending since funds (often in the form of deposits) were passed on for government use.

¹ Testimony of Honorable George M. Humphrey, Secretary of the Treasury, hearings before the Committee on Banking and Currency, House of Representatives, on the International Finance Corporation, 84th Congress, 1st Session, July 11, 1955.

² See Chapter 1, Introduction and Chapter 2, Overseas Branches of U.S. Banks for a discussion of other events which encouraged foreign branches to make Eurocurrency loans to developing countries. Programs initiated by U.S. government agencies such as the Commodity Credit Corporation, the Foreign Credit Insurance Association and the Export-Import Bank also encouraged direct loans to foreign governments. But these were largely loans made by the parent banks in the United States with domestic funds. Because many of these loans carried a government guarantee, they were made at interest rates below the market and at rates considerably below the loans made to developing countries by the overseas branches and subsidiaries of U.S. banks.

In 1972, developed countries received \$4,088 million of publicly announced Eurocurrency credit facilities while developing countries, both OPEC and non-OPEC, received \$2,495 million. Both groups sharply increased their borrowings in 1973—to \$13,748 million and \$7,323 million respectively—thus maintaining approximately the same ratios. In 1974, developed countries borrowed \$20,859 million in the Eurocurrency markets while developing countries borrowed only \$7,178 million, a decline from the previous year which reflected a \$2 billion drop in borrowing by OPEC countries, some of which became creditor nations rather than borrowers. In 1975, the lending pattern was sharply reversed. Developed countries borrowed only \$6,760 million while less developed countries increased their credits to \$11,861 million, an amount which included an increase in borrowings by OPEC countries of over \$2 billion.³ This pattern of borrowing reflects the events of the period: the need for countries to borrow dollars in terms of the requirement of some OPEC countries that oil be paid for in dollars and because of deficits in their balance of payments caused by the increase in oil prices.

The decline in total bank credits in 1975 to \$20 billion (as against \$29 billion in 1974)⁴ was partially offset by an increase in international bond issues from \$7 billion in 1974 to \$18 billion in 1975.⁵ The LDC's share of the Eurobond market was only 10% in 1974 and dropped to about 5% in 1975. Thus, most of the \$18 billion of Eurobond issues in 1975 reflected borrowings by developed countries.

Italy and the United Kingdom were the largest borrowers of Eurocurrency bank credits among developed countries, but both countries sharply reduced their borrowings from Eurobanks in 1975.⁶ Among developing countries, Brazil and Mexico have been major borrowers of Eurocurrency bank credits since 1972, and the borrowing of both rose to a high of \$2,607 and \$2,269 million respectively in 1975. Indonesia was also a major borrower in 1975 with total credits of \$1,276 at the end of the year. Loans to Iran, another major borrower, were \$722 million in 1973, \$115 million in 1974 and \$315 million in 1975. Japan also borrows heavily in the Eurocurrency market but most of its borrowings are short term.⁷

With the end of the Voluntary Foreign Credit Restraint Program in January 1974, it might have been expected that some of U.S. banks' lending to governments would be shifted to the home office. But banks in the United States increased term loans to foreign borrowers slightly less than \$2 billion in the 18 month period from December 1973 to June 1975. As discussed in Chapter 11 below, they increased short-term loans to foreigners, mostly lending to foreign banks, and they also supplied short-term funds to their foreign branches which were used

³ *World Financial Markets*, Morgan Guaranty Trust Company of New York, January 1976, p. 14. The data for developed countries includes the United States whose Eurocurrency borrowings totaled \$865 million in 1972, \$1,649 million in 1973, \$2,221 million in 1974 and \$745 million in 1975. The data used here are termed "publicly announced" credits. The absence of reported data has already been discussed and the figures published by Morgan Guaranty Trust Co. cannot be considered absolutely accurate.

⁴ These totals include credits to Socialist countries aggregating \$1,238 million in 1974 and \$2,425 million in 1975.

⁵ Richard A. Debs, "Petro-Dollars, LDC's and International Banks," *Monthly Review*, Federal Reserve Bank of New York, January 1976.

⁶ Italy borrowed \$928 million in 1972, 4,762 million in 1973 and \$2,322 million in 1974. The United Kingdom's share of Eurocurrency bank credits was \$689 million in 1972, \$3,150 million in 1973 and \$5,655 million in 1974. Italy borrowed only \$95 million and U.K. borrowings were \$118 million in 1975.

⁷ Data provided to the Senate Subcommittee on Multinational Corporations by the Federal Reserve Board show that at year-end 1975 Japan had total outstanding claims of \$7,768 million from the 21 largest U.S. banks, \$5,770 million from the 6 largest. Term loans totaled \$11,197 million.

to expand the branches' lending. Thus, governments of both developing and developed countries continued to rely on Eurocurrency bank credits. There was not a marked increase in U.S. domestic bank credit to foreigners other than short-term financing to foreign banks.

The problems which developing countries may face as a result of their borrowings from Eurocurrency banks can be discerned from their past experiences. In 1970 about half of their official foreign exchange receipts were being used to repay debts to official institutions which were their principal sources of credit. Aid and investments from developed countries have grown, but have fallen as a percentage of OECD countries' GNP—from 0.52% in 1960 to 0.34% in 1974—and export earnings largely from commodities and other primary products have declined.⁸

The first wave of Eurocurrency bank borrowing by less developed countries in 1972 reflected concern that the funds required for servicing existing debt left too little for further progress. It also reflected an impatience with the conditions and limitations experienced by recipients of official aid. In borrowing Eurocurrency credits at high rates, LDC's gambled that economic progress would generate the earnings needed to repay the debts. Subsequent borrowings to finance oil imports and a decline in export earnings due to the world-wide recession are a blow to such hopes. Given that the prospects for LDC's were not all that bright in 1972 and are less so now, why were Eurocurrency banks so willing to extend these credits? As one commentator has stated:

Though it was never articulated in so many words, most bankers must also have assumed that loans lent to LDC governments would be underwritten by the official aid programmes of the developed world. No Western government had any wish to see a debtor country default, or to inflict a major loss on its own banking system.⁹

Data collected by the Federal Reserve Board for the Senate Subcommittee on Multinational Corporations provide some interesting insights into country loans of the 21 largest U.S. banks. At year-end 1975, these banks had \$22,602 billion of foreign credits outstanding to third world countries and \$43,778 billion to European and other developed countries—a total of \$66,380 billion.¹⁰ Two-thirds of the loans to developing countries were concentrated in the six largest banks. Loans to Mexico and Brazil accounted for one-half of all lending to developing countries.

As is true of most data involving international banking, those data are incomplete. There is no indication of the amount of lending to the private versus the public sector. However, the data do give a reasonable indication of "exposure" in that it excludes claims guaranteed by an agency of the U.S. Government¹¹ or by U.S. corporations.¹² But it does not separate out interbank loans in terms of the country of residence of the parent bank. Thus, the information on developed countries is not useful since data for the United Kingdom, for example, includes loans to branches of German, Japanese, Italian, etc., banks located in London, and loans to branches of banks of third world countries as well.

⁸ Pierre Latour, "Euromarkets wait for LDCs' Credits to be Paid," *Euromoney*, October 1976.

⁹ *Ibid.*

¹⁰ Letter from Burns to Church, March 9, 1976, *op. cit.*

¹¹ See footnote 2.

¹² Thus it excludes most loans to subsidiaries to multinational corporations based in the United States.

The Federal Reserve Board staff memorandum argues that the amount of credit extended by the foreign branches of U.S. banks to third world countries is not a cause for concern. It notes that claims to Mexico and Brazil "were *each* about one and one-half percent of the total assets of the six largest U.S. banks".¹³ But in relation to capital, the figures are somewhat more alarming. Loans to each of these countries total over one-third of the aggregate capital of these six banks and more than one-third of the aggregate capital of the next 6 largest banks as well. Moreover, loans to Japan by the 6 largest banks totaled 60 percent of their aggregate capital funds.

The shift in foreign branch lending from the private to the public sector has important implications for public policy. Questions relating to the likelihood of payment has tended to shift the focus on the issue of country loans to the LDCs. But the scale of bank credits to a few individual countries has been such as to indicate the need for an appraisal of the appropriateness of direct lending to governments. It may be that such an appraisal is already under way and is reflected in the drop in Eurocurrency bank credits and sharp increases in Eurobond issues by developed countries in 1975. If so, it is a welcome development in that the shift to the Eurobond market acts to distribute these debts to a larger number and wider range of creditors in the private market. The concentration of country credits in banks had a potential for forcing a too close integration of public and private interests in that, as the above quotation indicates, U.S. government policy might be disproportionately shaped by the need to protect the U.S. banking system from a major default by a given country.

CLAIMS OF 21 U.S. BANKS ON RESIDENTS OF SELECTED FOREIGN COUNTRIES AS OF DEC. 31, 1975

[In millions of dollars]

| | Total | Third world | European and other developed countries | Maturing in 1 yr or less | | Maturing in more than 1 yr | |
|-------------------------------------|----------|-------------|--|--------------------------|------------------|----------------------------|------------------|
| | | | | Amount | Percent of total | Amount | Percent of total |
| Group 1: (6 largest banks) | \$43,388 | \$14,533 | \$28,855 | \$30,467 | 70.2 | \$12,921 | 29.8 |
| Group 2: (2d 6 largest banks) | 12,998 | 4,864 | 8,134 | 8,936 | 68.7 | 4,062 | 31.2 |
| Group 3: (9 other banks) | 9,994 | 3,205 | 6,789 | 7,614 | 76.1 | 2,380 | 23.8 |
| Total | 66,380 | 22,602 | 43,778 | 47,017 | 70.8 | 19,363 | 29.1 |

Note: The data exclude claims of United States banks and their branches and subsidiaries on the foreign branches of other United States banks, but include claims on United Kingdom branches of non-United States banks, including banks with head offices in third countries.

Source: Federal Reserve Board: Information collected for the Honorable Frank Church, Chairman of the Subcommittee on Multinational Corporations; Committee on Foreign Relations, U.S. Senate.

TERM LENDING

At year-end 1971, the foreign branches of U.S. banks had \$5.5 billion of terms loans outstanding to foreign borrowers.¹⁴ This was about 8% of the total assets of the branches. By December 31, 1975 the term loans of the foreign branches of the 21 largest banks had risen to \$19.4 billion or 29% of total branch assets.¹⁵ By comparison,

¹³ Letter from Burns to Church, *op. cit.* Emphasis supplied. The total to Brazil for these six banks was \$3.7 billion; \$3.6 billion to Mexico.

the 160 weekly reporting banks in the United States held \$47 billion of domestic term loans on the same date, or about 14% of their total domestic assets.¹⁶ Term loans to foreigners extended by foreign branches aggregate about 5% of parent bank assets—domestic and foreign—for the 21 largest banks and 9% of total loans. The aggregate amount of term loans is in excess of their combined capital of \$15.5 billion.¹⁷

In view of the short maturities of their liabilities and the absence of a reasonable ratio of stable deposits provided by private non-bank individuals and companies as discussed elsewhere, the foreign branches of these banks appear to have gone beyond reasonable limits in extending term credits. Data collected by the Federal Reserve Board for the Senate Subcommittee on Multinational Corporations reveal that 45% of the liabilities of these branches to foreigners are payable in less than 30 days. The data do not indicate the average maturity liabilities payable in more than 30 days but one can assume that the bulk is less than 90 days. The data also do not indicate the average maturity of long-term claims. But the average maturity of loans in Franklin's foreign portfolio was 5½ years and that appears to be fairly typical.

Another major gap in the data relates to the absence of information on borrowers of term loans of U.S. banks. While the breakdown by country is important new information, there is no indication of whether borrowing attributed to a given country represents loans to the public sector, the private sector or to subsidiaries of U.S. multinational corporations. Identification of the business of borrowers is helpful in assessing risk and evaluating the social benefits of the extension of credit. Presumably, a substantial proportion of the term loans of U.S. banks were made to assist countries in handling balance of payments problems caused by the increase in oil prices. Although these loans entailed risk, some think they were very beneficial—that it was fortunate a mechanism was available to provide funds to ease a crisis which could have caused severe economic and political problems for several countries. But if public policy considerations are advanced as justification for questionable banking practice, then disclosure and public discussion of the merits of the issue are the more imperative.

The data on term loans of foreign branches provided by the Board also do not distinguish between loans denominated in dollars and in foreign currencies. As discussed elsewhere, aggregate data on branch activity indicates that about 30% of total foreign branch assets are nondollar assets, but there is as yet no information on amounts in various other currencies. Term lending in currencies other than dollars may cause exchange rate risks for U.S. banks if exchange rates shift significantly over the term of the loan. Hedging with contracts to buy and sell foreign exchange is a way of eliminating this risk but, currently, futures contracts do not extend beyond a maximum of 18 months and loans that are extended for longer periods cannot be hedged. Futures contracts are not extended beyond 18 months for the obvious reason that it is difficult to predict exchange rate movements over a longer period and the likelihood of movements up or down is very real.

The acknowledgement of the need for this limitation in foreign exchange markets underscores the inherent risks to borrowers and lenders with regard to term claims in external currencies.¹⁸

If exchange rates for a given currency appreciate, the bank which has extended a term loan may take a loss since it must roll over the shorter-term foreign currency liabilities which support these loans. If rates depreciate, the loss will be sustained by the borrower. This is an important factor determining the response of central banks to exchange rate movements. The size of the external debt denominated in dollars of countries such as England, Italy, Brazil and Mexico has undoubtedly made it more difficult for these countries to accept exchange rate depreciation.

As its exchange rate falls, a country may earn more foreign exchange from increased exports, a development which is helpful in managing international payments deficits. But at the same time, the ratio of external debt to domestic income has increased, as has the cost of servicing the debt. This could compound the political and economic problems of the country involved and contribute to a further devaluation of its currency, thus threatening its ability to repay the loan. A country's inability to repay some or all of its external debt would have serious repercussions regardless of who the lender or lenders might be. But, as discussed above, the repercussions are more serious if the lenders are banks.

In making long-term loans, foreign branches of U.S. banks protect themselves in part by lending at floating interest rates, i.e., rates which are tied to the cost of interbank funds in London.¹⁹ This prevents the banks from being caught during a period of rising interest rates with assets which yield a low rate while the short-term liabilities which support them are being rolled over at increasingly higher rates, raising costs and lowering profits. Floating rates insure that some of the risk in such a situation is shared by the borrower. But, recognizing that shifting to the borrower the risk of rising costs and lower profits may result in failure to repay the loan, floating rate loans are frequently negotiated with "caps", i.e., a fixed ceiling on the rate that can be charged. Even so, there is no guarantee that over the life of a term loan market rates will not rise above the "cap."

Much of the short-term lending of commercial banks in reality is based on long-term extensions of credit—i.e., short-term claims which are rolled over at maturity every 3 months or so on a regular basis for many years although both the borrower and the lender have the option of not renewing the loan. But, it appears in practice that there is little difference in short- and long-term lending if floating rates are imposed on long-term credits other than the "fixed" maturity of term loans. The borrower benefits by having greater certainty concerning loan maturity as well as greater flexibility in repayment schedules and by obtaining a so-called "grace period" of a year or more during which no payments on principal or interest are required. But for the

¹⁸ External currencies are those which must be exchanged to be used. Private foreign borrowers of Eurodollars must exchange them into their domestic currencies in order to make domestic payments. Large capital transfers and certain international payments are made in dollars and do not require that the proceeds of Eurodollars loans be exchanged for other currencies. However, borrowers of Eurodollars may have to exchange their domestic currency into dollars in order to repay the loan. In that case also the exchange rate is a factor. It is easy to see why stable exchange rates are so important to countries whose residents and governments have contracted substantial debts denominated in dollars.

¹⁹ This is termed the London interbank offer rate (LIBO).

bank, the option not to renew a short-term loan during a liquidity crisis is an obvious advantage.

In the Eurocurrency market, short-term credits are preferable when the loan is denominated in a currency which is not the national currency of the borrower or of the lender because the exchange rate risk can be eliminated by hedging.

As discussed in a previous section, the foreign branches of U.S. banks experienced a substantial drop in interbank liabilities in the summer of 1974 and were unable to liquidate assets quickly enough to match the outflow. An inflow of funds from OPEC countries helped make up for part of the drain, but most of the outflow was offset by funds supplied by the parent banks. The amounts and ratios of long-term claims extended by the foreign branches at that time are not known. It is not likely, however, that the amount was greater than that revealed in the data supplied by the Federal Reserve Board to the Senate Subcommittee on Multinational Corporations.

Substantial infusions of funds from the parent banks in 1974 attest to the highly illiquid condition of foreign branches at that time. Given the current level of term lending, it would be even more difficult now for U.S. banks to provide liquidity to their foreign branches should another crisis occur. One assumes that efforts are being made by U.S. banks and regulators to reduce the volume of long-term claims and bolster the liquidity of foreign branches. But it would also be useful if regulators were to consider what are appropriate levels for term lending, whether liquidity ratios are adequate and what type of assets will provide liquidity in a crisis such as the one that occurred in 1974.

CAPITAL ADEQUACY

Capital provides a margin of safety for the creditors of an institution in the event that it fails. In the case of a bank, most creditors are depositors and are protected at least to some degree by deposit insurance. But, as discussed in the section on the role of the Federal Reserve as lender of last resort, large banks have large amounts of uninsured deposits and other uninsured liabilities. Presumably these banks should have higher capital ratios than banks whose sources of funds are primarily insured deposits. Their creditors—mostly other banks and other commercial and financial companies—would benefit from the additional margin of safety. But, as table 1 indicates, the ratio of capital to assets of the 20 largest multi-national banks is very low. The aggregate average for this particular group of banks is only 4.1 percent.

A paper prepared for the FINE Study by Professor Donald D. Hester of the University of Wisconsin²⁰ analyzes the role of bank capital and its decline since 1960. Ratios submitted by Dr. Hester show that capital to total domestic and foreign assets for all banks has declined from 8.8% in 1960 to 6.4% in 1974. But the decline has been greatest for banks with over \$5 billion of assets. Their average ratio dropped from 8.7% in 1960—when it was higher than for all banks except those in the \$1 billion to \$5 billion category—to 4.6% in 1974. Banks in the next size category (\$1 billion to \$5 billion) show a decline from 9.6% to

²⁰ "Opportunity and Responsibility in a Financial Institution," by Donald D. Hester, *Financial Institutions and the Nation's Economy* (FINE), A Compendium of Papers Prepared for the FINE Study, Committee on Banking, Currency and Housing, U.S. House of Representatives, November 1975.

6.4% over the same period, while the average ratio for banks with assets of \$500 million to \$1 billion has dropped from 8.7% to 7.1%. Banks with assets under \$500 million, and with liabilities which consist primarily of insured deposits, also show a drop in their average ratio of capital to assets but the decline—from 8.3% to 7.7%—is less than for other, larger banks.

In evaluating the margin of safety provided by the capital of banks in any category, it is useful to know the average amount of uninsured liabilities. In the case of the 20 multinational banks included in the table here, all the liabilities in their overseas branches are uninsured and the average aggregate ratio of foreign branch liabilities to total liabilities is 33%. The amount of domestic deposits which are uninsured is more difficult to calculate since it involves federal funds borrowings, securities repurchase agreements, large money market certificates of deposit and demand and time accounts with balances over the \$40,000 insured maximum. A conservative estimate indicates that the uninsured liabilities of these 20 banks are in excess of 50% of total liabilities and probably over two-thirds of total liabilities for the largest banks.

The margin of safety which the capital of these banks provides for creditors is therefore quite slim. In the event of a failure of one of these banks, owners of uninsured liabilities would not be paid off immediately as are insured depositors but would have to wait until the bank's assets were liquidated. As discussed above, a sizable portion of the assets of these banks are not liquid. Therefore the amount of time required would be considerable and the burden on creditors, especially other banks, would be intolerable. The alternative in handling the failure of such an institution is to use the central bank as lender of last resort to bail out uninsured creditors. As discussed below, this was the method used in coping with Franklin. It resulted in the Federal Deposit Insurance Corporation assuming responsibility for repaying the Federal Reserve for the uninsured liabilities the Fed had paid.

But there are uses for bank capital other than as a margin of safety for creditors in the event of a failure. Capital provides a cushion for the bank at all times. In the event of a recession or if the bank is a victim of fraud, the capital funds of the bank permit it to sustain losses and avoid a failure. Since banks do sustain losses due to economic and other factors beyond their control, a high ratio of capital means that they can weather such difficulties with a minimum of strain.

Capital ratios are also used as the basis for legal limits on loans to one borrower and are used by examiners to determine the exposure of banks in lending to a single industry or country and to assess the condition of a bank in relation to its criticized loans. While total assets or risk assets could also be used as a measure, the use of capital is related to its function as a margin of safety.

The function of capital in providing a cushion of safety for both the bank and its creditors has been reemphasized lately and there appears to be general agreement that banks need to increase their capital ratios. What the ideal ratio should be has not been agreed upon and perhaps never can be. Nevertheless, more thought and attention should be given by the bank regulators to the relationship between capital ratios and the amount of uninsured liabilities of banks as well as the more traditional measures of liquidity involving the management of assets and loan portfolios.

TABLE 1.—DOMESTIC AND FOREIGN BRANCH ASSETS/LIABILITIES OF 20 MULTINATIONAL BANKS¹, DEC. 31, 1974

| Name of bank | Total domestic assets | Foreign branch assets | Total foreign and domestic assets | Total capital accounts | Capital/total assets (percent) | Capital/domestic assets (percent) | Foreign branch assets/total assets (percent) |
|--------------------------------------|------------------------------|------------------------------|-----------------------------------|------------------------|--------------------------------|-----------------------------------|--|
| Bank of America N.T. & S.A. | \$36,491,892,841 | \$20,422,419,000 | \$56,914,311,841 | \$1,913,572,074 | 3.4 | 5.2 | 35.9 |
| First National City | 28,870,546,193 | 29,887,570,000 | 58,758,116,193 | 2,206,276,948 | 3.8 | 7.6 | 50.9 |
| Chase Manhattan | 27,299,311,341 | 15,561,981,000 | 42,861,292,141 | 1,839,041,254 | 4.3 | 6.7 | 36.3 |
| Manufacturers Hanover Trust | 18,918,374,391 | 6,770,964,000 | 25,639,338,391 | 1,005,765,401 | 3.9 | 5.3 | 26.2 |
| Morgan Guaranty Trust Co. | 16,241,309,207 | 9,322,845,000 | 25,564,154,207 | 1,281,278,710 | 5.0 | 7.9 | 36.5 |
| Chemical Bank | 13,344,787,774 | 7,358,704,000 | 22,703,491,774 | 1,949,951,051 | 4.2 | 6.2 | 32.4 |
| Continental Illinois National Bank | 14,243,378,984 | 4,330,271,000 | 18,593,649,984 | 778,505,911 | 4.2 | 5.5 | 23.4 |
| First National Bank of Chicago | 13,028,466,780 | 6,321,063,000 | 19,376,752,780 | 680,337,108 | 3.5 | 5.2 | 33.0 |
| Security Pacific National Bank | 12,936,676,094 | 2,662,247,000 | 15,596,923,094 | 634,832,120 | 4.1 | 4.9 | 17.1 |
| Bankers Trust Co. | 12,923,655,583 | 6,148,286,000 | 19,071,941,583 | 733,927,100 | 3.8 | 5.7 | 32.2 |
| Wells Fargo Bank | 10,658,110,141 | 1,945,071,000 | 12,603,181,141 | 514,857,657 | 4.1 | 4.8 | 15.4 |
| Crocker National Bank | 8,716,866,442 | 1,633,030,000 | 10,349,896,442 | 366,946,151 | 3.5 | 4.2 | 15.8 |
| United California Bank | 7,539,816,701 | 1,947,205,000 | 9,487,021,701 | 416,729,417 | 4.4 | 5.5 | 20.5 |
| Mellon Bank N.A. | 7,388,639,779 | 2,250,841,000 | 9,639,480,779 | 554,284,283 | 5.8 | 7.5 | 23.4 |
| Irving Trust Co. | 7,178,727,879 | 2,762,023,000 | 9,940,750,879 | 340,162,444 | 3.4 | 4.7 | 27.8 |
| National Bank of Detroit | 6,375,073,551 | 1,286,391,000 | 7,661,464,551 | 463,857,077 | 6.1 | 7.3 | 16.8 |
| First National Bank of Boston | 5,453,687,450 | 2,953,541,000 | 8,407,228,450 | 425,391,550 | 5.1 | 7.8 | 35.1 |
| Marine Midland Bank | 4,490,727,302 | 2,645,093,000 | 7,135,820,302 | 201,967,766 | 2.8 | 4.5 | 37.1 |
| Seattle First National Bank | 4,263,463,955 | 3,361,977,000 | 4,625,440,955 | 198,843,786 | 4.3 | 4.7 | 7.8 |
| First National Bank in Dallas | 3,013,660,494 | 1,229,130,000 | 4,242,790,494 | 217,770,657 | 5.1 | 7.2 | 29.0 |
| Total/average—all banks ² | ³ 261,377,175,000 | ⁴ 127,770,652,000 | ⁵ 389,147,827,000 | 15,274,296,000 | 4.1 | 5.8 | 32.9 |

¹ The 20 banks listed above have branches in 3 or more countries. Assets of Edge Act and overseas subsidiaries are not included.² Totals may not add due to rounding.³ This figure is approximately 30 percent of total domestic assets of all insured commercial banks in the United States.⁴ This figure is approximately 84.2 percent of total foreign branch assets of U.S. banks.⁵ This figure is approximately 36.3 percent of total domestic and foreign branch assets of all insured commercial banks in the United States.

Source: Federal Reserve Board, compiled by committee staff.

CHAPTER 10

THE ROLE OF THE LENDER OF LAST RESORT IN INTERNATIONAL BANKING

Foreign branches of U.S. banks are no different from domestic branches in terms of their dependence on the parent bank. Since they are not separately capitalized, the parent bank must provide additional resources in the event of a liquidity crisis. When such a crisis does occur, the parent bank may have to turn to the Federal Reserve to supply the needed liquidity to pass on to the branch. This is what occurred when the announcement of foreign exchange losses by Franklin National Bank in May 1974 caused an outflow of its liabilities. The experience of Franklin over the subsequent months provides significant insights into the role of a central bank as a lender of last resort when a large multi-national bank undergoes such a crisis.

Franklin's international activities were an important part of its overall business. At year-end 1973 \$1,136 million or 30% of its total deposits were in the London and Nassau branches. Between May 8 and October 8, 1974, there was an outflow of \$679 million from the branches which was 33% of the total outflow of \$2,822 million. The decline in Franklin's liabilities occurred very quickly. About 55% of total withdrawals were made between May 8 and June 30, 1974. During this initial period the bank lost \$545 million of domestic interbank funds, \$322 million of large money market certificates of deposit, \$504 million of domestic demand deposits and \$393 million foreign branch deposits. Smaller amounts in other categories accounted for the remainder of the total of \$1,963 million which was lost by the end of June.

In a letter responding to questions submitted by Congressman Reuss, Arthur Burns commented that "Franklin did not have available sufficient liquid assets to fully offset its loss of funds."¹ The bank's problem is illustrated by its municipal security holdings. Even if it had been possible to sell the securities, the bank would have taken a substantial loss given current market values.² But they could not be sold since they were pledged as collateral for public deposits and had to be held by the bank by law. A similar problem was caused by Franklin's heavy reliance on securities repurchase agreements. The bank's holdings of government securities—usually classed as a highly liquid asset and one which is readily sold in such a situation—could not be disposed of because they, like the municipals, were pledged to secure existing liabilities. Therefore, they could not be used to offset withdrawals of demand deposits or other outflows.

¹ Letter of February 5, 1975 included in the record of hearings before the Joint Economic Committee, "Financial and Capacity Needs," October 10, 1974. This letter and Reports by Chairman Frank Wille on the administration of the Franklin National Bank receivership by the Federal Deposit Insurance Corp. provide most of the data used above on Franklin National Bank.

² On August 27, 1974, the depreciation of Franklin's securities portfolio (book less market value) was \$127,350,138, a substantial portion of the bank's \$188,117,950 of capital funds.

Franklin's liquidity problems were also compounded by the fact that it was heavily dependent on both the domestic and international interbank market, the great bulk of which were overnight loans. Some \$1.1 billion of deposits in the London and Nassau branches were deposits of other banks; half of them—15% of the bank's total deposits—were liabilities to the foreign branches of other U.S. banks. In March 1974 the bank's registration statement filed with the SEC indicated that purchases of Federal funds the previous year averaged \$750 million daily. On the asset side, Franklin reported balances with other banks aggregating approximately \$600 million.

Between May and October, \$1,389 million of foreign and domestic interbank liabilities were withdrawn from the bank. This amount was almost half (49.2%) of the total outflow. But the interbank market yielded an inflow of only \$198 million as foreign branch placements with other banks matured. This was only 20% of the total inflow of \$1.1 billion of funds raised by liquidating or otherwise disposing of assets to offset the \$2.8 billion outflow which occurred during the summer and early fall. The remainder was made up by borrowings from the Fed's discount window.

Had Franklin withdrawn all its balances with other banks, it would have precipitated an even more rapid withdrawal of interbank liabilities than did occur and would have intensified its problem. Thus, it appears that just as Franklin's municipal securities secured public deposits and its Treasury notes and bills secured repurchase agreements, balances with other banks acted in effect as collateral for borrowings from other banks, and, as indicated below, as collateral for the bank's borrowings from the Federal Reserve Bank of New York. It may be that the interbank market serves as a sure source of additional liquidity only in a period of expansion, when confidence in individual banks and the banking system as a whole is high. As Franklin's experience and that of most foreign branches of U.S. banks in the same period indicates, its usefulness in a liquidity crisis—individual or collective—is very limited.

As described in Chapter 1, total foreign branch liabilities to non-related banks shrank 11% or \$8 billion between May and September 1974. Some of this was due to withdrawals of dollar balances by banks for lending in their own domestic markets for oil payments. But the fact that banks chose to withdraw funds from the interbank market rather than borrow additional funds for lending reflects their lack of confidence in the market. The scale of withdrawals over such a short period, and the timing—coincidental with Franklin's announcement of foreign exchange losses—suggest also that the decline in the interbank market reflected lack of confidence in individual banks and the international banking system. The response to the crisis was such that the interbank market helped drain rather than supply liquidity to the banking system.

Franklin's borrowings from the Federal Reserve Bank of New York climbed to \$1.7 billion on September 27. Collateral pledged against this loan aggregated \$2.6 billion and included \$617 million of assets supplied by the foreign branches.³ Federal Reserve Board Governor Holland testified subsequently that one of the fears of

³ The collateral consisted of \$515 in foreign loans and \$102 million of placements with other banks.

the regulators was that Franklin would run out of collateral acceptable for discount before the matter of the disposition of the bank was settled; that it had in fact run up against its limit.⁴ The foreign branch assets were 24% of total collateral. Had they not been included, the bank would have reached its limit much earlier.

Problems involving physical custody arise when foreign branch assets are used as collateral at the Federal Reserve discount window. While assets of the Nassau branch are available at the home office, London assets apparently were held in custody for the New York Bank by the Bank of England. It is possible that had the branch been located in a country with bank secrecy laws or where an unfriendly central bank could either block the export of assets or refuse to act as custodian, branch assets could not be used as collateral with the Federal Reserve Bank even though the outflow of branch liabilities was large enough to threaten other parts of the parent network and exhaust the supply of assets available for discount.

The role of a lender of last resort to a major multinational bank involves more than merely extending the discount privilege to the limits of acceptable collateral. The Federal Reserve Bank of New York played an active and critical part in helping Franklin execute its foreign exchange contracts. Chairman Burns noted that the Federal Reserve Bank of New York had purchased currency on Franklin's behalf on a spot basis from late May through September because it "recognized the importance of the contracts being properly honored."⁵ Franklin had found it virtually impossible to buy foreign exchange from other banks in order to fulfill its maturing contracts. With the failure of Herstatt its problems were compounded. It is not known what the bank's original foreign exchange position was on May 8. Examination reports indicated that outstanding contracts aggregated approximately \$4 billion at year-end 1973 and \$1.9 billion on August 14, 1974. By September 24, 1974 Franklin's problems in meeting its foreign exchange commitments were totally out of hand and its contracts were assumed by the New York Reserve Bank. At that time there were 300 outstanding contracts totalling \$725 million with maturities through August 1975. The New York Bank calculated that its risk in executing these contracts was about \$15 million based on the book loss on Franklin's total position, its estimates of the risk of counterparties failing to perform contracts and certain other risks not specified.

The significance of foreign exchange contracts in such a situation is described in the following quotation from Chairman Burns' letter to Mr. Reuss:

Even under the best monetary conditions, failure of Franklin to perform on such a volume of international commitments would have undermined confidence in the foreign exchange market and tarnished the reputation of United States banks in general. In the circumstances prevailing at the time, however, the situation was even more delicate. In particular, the failure of Germany's Herstatt Bank to honor its current foreign exchange commitments upon its closing had had a shock effect on the market, and had sparked wider questions about the German banking system. The result was a precautionary movement of funds out of Germany which contributed to a decided weakening of the German market.

⁴ Testimony of Hon. Robert C. Holland, *Bank Failures, Regulatory Reform, Financial Privacy*, Hearings before the Subcommittee on Financial Institutions, etc., July 16, 1975.

⁵ Letter from Burns to Reuss, *op. cit.*

These considerations were carefully weighed as Franklin's status came under review in early fall. In considering the possible take-over of Franklin by another bank, it became evident that potential purchasers of its assets and liabilities would not be willing to include the Franklin exchange book in the package. In the event of a take-over which did not include the foreign exchange book, there was a distinct possibility that the foreign exchange contracts would not have been performed. By the same token, foreign counterparties to Franklin contracts would probably not have performed.

We therefore faced the risk that \$725 million of Franklin forward exchange contracts would be dishonored, with serious consequences for market confidence. In the Herstatt case, the mark had suffered. We feared similar damaging effects upon the dollar if the Franklin contracts were dishonored. It was therefore concluded that the New York Reserve Bank's assumption of Franklin's foreign exchange position would be in the best interests of the United States and the world economy as well as the foreign exchange market. The subsequent acquisition of the book by the New York Reserve Bank was greeted with relief by market participants both in this country and abroad. Indeed, subsequent news of Franklin's insolvency was taken in stride by the market with no adverse impact on the dollar.⁶

The implications of the above views should also be considered in assessing the significance of the amount of assets and liabilities of foreign branches denominated in currencies other than U.S. dollars. This was not a major problem for the Federal Reserve in assisting Franklin National Bank but it could become a factor should another multinational bank need assistance. As Table 1 Chapter 1 indicates, the proportion of branch assets and liabilities payable in other currencies has at various times been as high as 35% of total assets/liabilities of all U.S. banks' foreign branches. In December 1974 amounts payable in other currencies had declined to about 30% because of the resurgence of the dollar as the key currency in international financial markets as a result of OPEC preferences for payments in dollars. But as long as there is a significant amount of funds not payable in the national currency, the implications for a central bank in its role as lender of last resort are somewhat complicated. A 1972 Federal Reserve study took note of this problem and of the fact that it is unlikely that foreign central banks would be willing to provide their currencies to branches of U.S. banks during exchange market crises. Therefore, it might be necessary for the Federal Reserve to provide foreign exchange to meet demands for payment of non-dollar liabilities.

A problem which was pointed up as a result of the failure of Franklin concerns the relationship between the proportion of bank assets which are not insured and the options available in handling potential failures. As Chairman Burns noted, all major banks "depend to a large extent on uninsured deposits for their operations."⁷ Franklin had a total of \$1,498.4 million of uninsured deposits as of June 7, 1974. Had Franklin been put into receivership in May of 1974, all its uninsured deposits—including foreign deposits, aggregating approximately 41% of the total and other liabilities—would have become liabilities of the receivership. A different problem would have arisen had a conservator been appointed for the bank.⁸ Since the FDIC would have served as conservator, it would have had to meet demands for payment of unusual deposits by making payments out of the

⁶ *Ibid.*

⁷ *Ibid.*

⁸ A receiver is appointed when a bank is closed. A conservator takes over management of a bank which is not then closed.

insurance fund. Thus, it is possible that insuring large multinational banks with a substantial portion of uninsured liabilities only serves to jeopardize the insurance fund rather than protect deposits.

But problems which have arisen since Franklin's remaining liabilities were purchased by European-American Bank and Trust Co. in October 1974 also point up further difficulties involved when large multinational banks fail. European-American rejected all \$585 million of Franklin's foreign branch loans. These loans are now held by the FDIC as receiver for the \$2.2 billion of Franklin assets which were not assumed by European-American. Whether or not the FDIC will encounter any special difficulties in collecting these loans is not easy to predict at this point. They carry an average maturity of 5½ years—more than twice the maturity of the \$700 million of domestic commercial loans, but not as long-term as the municipal securities or the real estate loans which the FDIC must administer.⁹

CONCLUSION

Many of the issues discussed above were related to the decision by regulatory authorities not to close Franklin but rather to go as far as possible in providing funds through the discount window. Dr. Burns pointed out that the options of putting the bank into receivership or appointing a conservator were not available. He also argued that Franklin's closing would have "caused other bank failures" which would have resulted in "large losses to the Federal Deposit Insurance Corporation."¹⁰ This assessment is supported by the fact that, as noted above, approximately 49% of the total outflows were bank-related liabilities. In addition, the substantial volume of foreign exchange contracts were also bank related. A conservative estimate indicates that Franklin's direct and contingent liabilities to other banks were in excess of \$5 billion in May 1974. Failure to meet interbank liabilities of this magnitude clearly could have caused other bank failures and might had been enough impact to unleash the domino reaction so widely feared at the time.

Franklin's failure has triggered responses from regulators and Congress in favor of regulatory reform. The financial press has explored the implications of the possibility that large banks cannot be allowed to fail. So far, no compelling solutions have been put forward for the problem of managing the failure of a large multinational bank without damage to financial markets or to existing restraints on banking concentration. The certainty that preceded Franklin—that deposit insurance had resolved the threat of wide-spread bank failures caused by loss of confidence—has not been regained. Perhaps the one things that did succeed in the Franklin failure—the efforts of the Federal Reserve as lender of last resort—will come to replace insurance as the bedrock of confidence in the banking system. If so, there will be a need for awareness that this will effect profound changes in the banking system and the way it is regulated.

⁹ The FDIC is administering \$290 million of Franklin's municipal securities with an average maturity of 18 years and \$200 million of real estate loans with an average maturity of 14 years.

¹⁰ Letter from Burns to Reuss, *op. cit.*

CHAPTER 11

SOME EFFECTS OF THE FOREIGN LENDING ACTIVITIES OF U.S. BANKS

The activities of national banking systems in domestic markets are greatly influenced by the monetary policy context in which they operate. The same is true for international banks except that establishing the policy context which shapes their responses is somewhat more complicated. There is no central governmental authority in international financial markets which establishes monetary and credit policies, imposes monetary policy variables such as reserve requirements, interest rate limitations or limitations on assets and liabilities, or, through its own actions, influences the availability of credit. The impact of the actions of a number of central banks have helped shape the Eurodollar market. But most of these actions have been concerned with protecting domestic monetary policies from being undermined by the opportunities for borrowing and depositing in an external banking market rather than devising policies which relate to the external market itself.

The indifference of governments to the Eurocurrency market *per se* has undoubtedly contributed to its growth. No major efforts have been made to curb it. In fact, the exchange controls which governments have used to insulate national financial markets have had some built-in encouragements. As noted earlier, the institution of the Voluntary Foreign Credit Restraint and the Foreign Direct Investment Programs by the United States were undertaken with the understanding by all that U.S. banks would continue to serve existing foreign customers—especially U.S. multinational corporations—through foreign branches and subsidiaries which would obtain the funds overseas. It was thought that this strategem would allow the realization of two seemingly contradictory objectives—the continued expansion of U.S. corporations overseas with credit supplied by U.S. banks without adverse impact on the U.S. balance of payments. This, as noted, provided a major impetus for the expansion of the Eurodollar market.

But there were other actions by central banks which also assisted in developing this external banking market and influenced the shape of its activities. The German central bank, wrestling with the problem of managing capital inflows in the late 1960's and up to the inauguration of floating rates in 1973, imposed among other restrictions one which prohibited the payment of interest on foreign deposits. But short-term loans from banks outside Germany were exempt from this restriction. This provided one of the avenues used in speculative crises which resulted in the revaluation of the Deutschemark in 1969 and the devaluation of the dollar in 1971 and 1973. Speculators could borrow Euro-dollars from the foreign branch of a U.S. bank, exchange them for Deutschemarks and then repay the loan with cheaper dollars if and when the value of the dollar declined. Transfers of accounts which did not involve a flow of funds could also be arranged.

A Eurodollar bank could serve a customer who could not get funds into a country by acquiring a deposit in the domestic interbank market and trading the balance. Or it could loan funds to a domestic bank and accommodate a customer who could not get funds out, trading a domestic balance for an external balance.

The Swiss dealt with the same problem using a variation on the same tool. They imposed a marginal reserve requirement of 100% on increase in liabilities to nonresidents in both foreign currencies and Swiss francs. But the marginal requirement did not apply if the increase in nonresident deposits was offset by assets in foreign currencies or in Swiss francs that were lent abroad.¹ The Swiss banks had a very strong incentive to loan funds to the external market since it enabled them to continue to attract the nonresident deposits without which their business would shrink to the size of their relatively small national economy. Thus, the actions taken by these and other governments in efforts to insulate their economies helped create additional demand for and supply of funds in international markets.

In the United States, the Voluntary Foreign Credit Restraint Program was inaugurated in February, 1965 as part of an effort to end the chronic deficit in the U.S. balance of payments. The amount of bank credit to foreigners more than doubled between 1960 and 1964—from \$4.2 billion to \$9.4 billion. Lower interest rates in the United States and the availability of credit favored foreign borrowing here from a widening group of U.S. banks. Assets of overseas branches also doubled during this period and the number of Edge and Agreement corporations more than doubled as U.S. banks found funds readily available to expand their international operations.

An earlier effort to dampen the flow of funds overseas by imposing a tax on foreign securities to make them competitive with U.S. securities had altered the character of borrowing by developed countries. The imposition of the VFCR guidelines regulating further increases in credit extended by U.S. banks overseas was accompanied by an amendment to the Interest Equalization Tax legislation which raised the cost of non-export term-loans to foreign borrowers in the developed countries by about 1 percent. As the thrust of the IET amendment indicates, there was not only a precipitous growth in foreign credits held by banks in the United States, but also major changes in the nature of these credits.²

¹ A similar relaxation of Voluntary Foreign Credit Restraint Guidelines was made for so-called Delaware Corporations by the Federal Reserve Board.

² A Federal Reserve Board study, written in 1968 states:

"the foreign lending undertaken by banks even as late as the mid-1950's and the credits then outstanding were largely associated with the financing of U.S. foreign trade."

"Diversification of foreign lending by U.S. banks in the early 1960's involved extensions of credit in more countries to a more heterogeneous collection of borrowers, at more flexible and varied terms, and for more different purposes. An increasing proportion of the credits extended were for financing of trade among foreign countries, the refinancing of foreign commercial banks, and in the longer-term area, the financing of development projects by foreign governments and the provision of funds for working capital and capital expenditure purposes to major business corporations abroad."

Data presented in the Federal Reserve study indicate that Latin American credits, which had traditionally been the major component in U.S. banks foreign loan portfolios and reflected U.S.-Latin American trade relationships, shrank from 50 percent of total foreign credits in 1955 to 30 percent in 1965; that more than 40 percent of all foreign credits at the end of 1965 were long-term loans; and constituted an even higher percentage of outstanding credits to borrowers in Europe and Australia; direct loans to U.S. affiliates accounted for a very small percentage of credits extended prior to 1965. Before that date the majority of their needs for financing were met from parent company resources. About half of all foreign credits in the mid-60's were extended to banks, a substantial portion of which represented recourse credits used to support their overall operations; and that growth in the total of foreign credits extended had been "dominated by the phenomenal increase, both proportionately and absolutely, in Japanese borrowings." By 1968 Japanese borrowings accounted for about one fourth of all foreign credits outstanding, "with the result that, balance-of-payment constraints aside, the overall volume of foreign lending hinges to an important degree on the ebb and flow of Japanese credit demands." "The International Operations of U.S. Banks," Division of Supervision and Regulation, Board of Governors of the Federal Reserve System, 1968, pp. 1-5, 11-5, 8.

To a certain extent the actions taken in 1965 were successful. Banks stayed within their guidelines and long-term lending to foreigners declined although funds which were available for foreign lending were largely preempted by developed countries, but the deficit in the balance of payments continued and further controls were imposed in 1968 in the form of guidelines administered by the Department of Commerce on the amount of funds which could be extended by U.S. multinational corporations to their overseas subsidiaries. Meanwhile, drastically tightened money conditions also limited the amount of funds available for overseas lending by banks. In fact, those banks which had established overseas branches became net borrowers from their branches, exploiting the increasingly important Eurodollar market to meet the demands of domestic customers.

Funds flow to and from external and domestic banking markets for several reasons. When interest rates shift in either market, banks engage in arbitrage. That is, they act to take advantage of the shift to maximize their profits by minimizing costs. If interest rates in the Eurodollar market move above domestic rates, they will increase their Eurodollar assets, loaning cheaper, domestic deposits to the external market. If interest rates in the Eurodollar market move below domestic rates, banks will increase their Eurodollar liabilities, borrowing the cheaper funds from the external market for lending at the higher, domestic rate. When the flow of funds becomes large enough, the difference in the rates disappears.

Another reason for flows of funds is a change in monetary policy variables which in the United States is primarily reserve requirements. Reserve requirements act as a tax on deposits which increase their cost. If the requirement is raised or lowered, it changes the cost of funds in the domestic market and produces an incentive for banks to lend to or borrow from the external market much as does a shift in interest rates. The Federal Reserve Board set reserve requirements on Eurodollars to raise their cost above that of large negotiable certificates of deposits since that is the class of liabilities which Eurodollars replace. In 1969, there were no reserve requirements on Eurodollars and large CD's were subject to Regulation Q ceilings on interest payments. These ceilings have since been removed and the reserve requirement imposed to discourage the use of Eurodollars on a regular basis as a substitute for CD's.

A rise or fall in domestic loan demand also creates incentives for banks to borrow from or lend to the external market. While changes in loan demand are usually accompanied by an appropriate shift in interest rates, this may not always be the case. A given monetary policy goal may require a rise or fall in interest rates regardless of loan demand. For example, the Federal Reserve acted to increase interest rates during the early years of the depression despite the need to stimulate loan demand because it wanted to halt the outflows of gold. On the other hand, not every increase or decrease in interest rates will produce a decrease or increase in external lending by U.S. banks. If there are no major shifts in credit demand in the United States, U.S. banks will continue to lend to domestic customers.

It is possible that changes in loan demand are a stronger reason for borrowing from or lending to the external market than shifts in interest rates or reserve requirements. At least, it would appear to be so in the United States, especially where flows between the U.S. parent

bank and its overseas branches are concerned. In 1969, U.S. banks responded to the Federal Reserve's restrictive monetary policy by borrowing approximately 14 billion Eurodollars from their foreign branches. The demand for these funds caused massive outflows from European countries. By the time they arrived in the United States as deposits, the cost of attracting them out of various overseas domestic markets made them very expensive. Some of the interest expense was offset, however, by the fact that they were not subject to reserve requirements. Still, they were not cheaper than domestic U.S. funds but they were more available and there were borrowers willing to pay the price.

The Federal Reserve responded by imposing a 10% marginal reserve requirement on additional Eurodollar borrowings by U.S. banks from their parent banks.³ By levying reserves on the increment over a base level, the Fed encouraged the banks to pay back the borrowings gradually. An outflow of the magnitude shown in Chart I as occurring over an 18 month interval could have had very damaging effects on financial markets had it occurred in the three to six month period which reflected the maximum maturity of most of the funds borrowed.

TABLE I—Major International Monetary Events, 1965-75

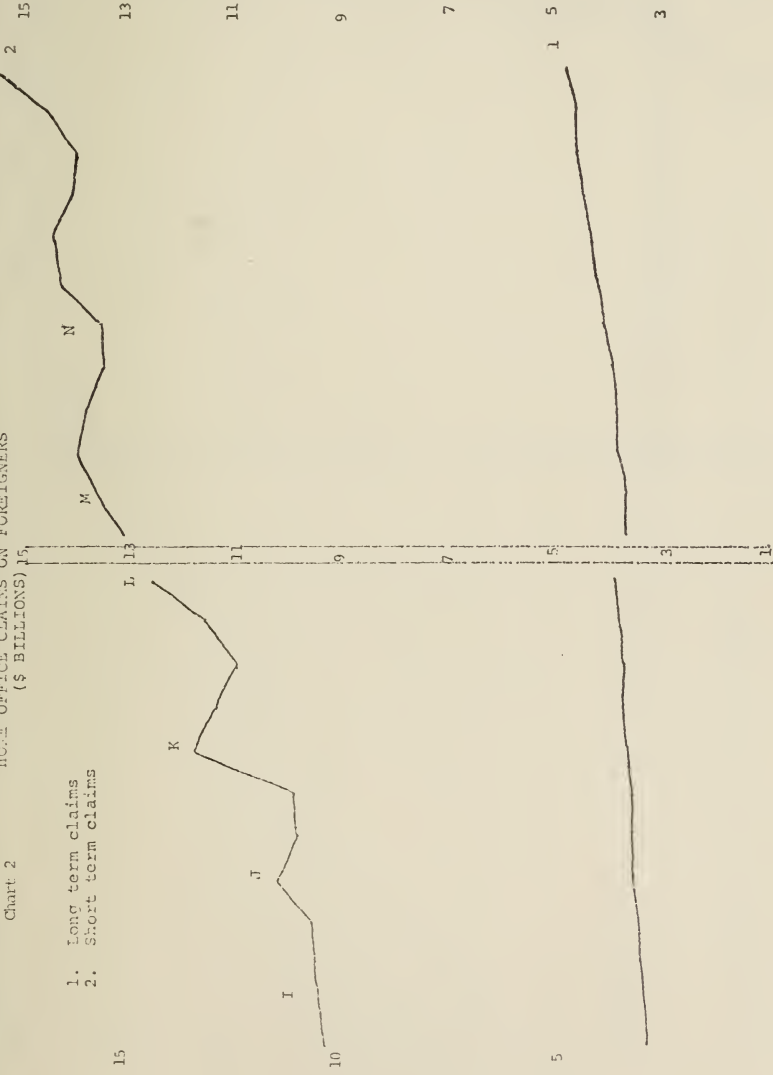
| | |
|--------------------------|---|
| A. July 1966----- | Federal Reserve Act Amendments allow national banks to invest up to 25 percent of capital and surplus in one or more foreign banks. |
| B. November 1967----- | Britain devalues the pound 14.3 percent. |
| C. March 17, 1968----- | Inauguration of the two-tiered gold system. |
| D. November 1968----- | Massive pressure to devalue French franc. |
| E. March 1969----- | Pressure on franc resumes; April 28 deGaulle resigns. |
| F. August 8, 1969----- | French franc devalued 11.9 percent. |
| G. October 24, 1969----- | German mark revalued 9.3 percent. |
| H. Fall 1969----- | U.S. interest rates peak, Federal funds rate reaches 9.7 in October, commercial paper rate reaches 9.1 in the first week of 1970. |
| I. March 1971----- | Low point for U.S. interest rates—Federal funds 3.7 percent, commercial paper 4.2 percent. |
| J. May 1971----- | Wave of pressure to devalue U.S. dollar in response to payments deficit, domestic inflation, dwindling gold and currency reserves and spectacular growth of the Eurodollar market leads to the float of the German mark and Dutch guilder against the dollar. U.S. interest rates peak. |
| K. August 1971----- | A new round of speculation against the dollar begins, August 15, 1971 the United States ends convertibility of the dollar into gold. |
| L. Dec. 18, 1971----- | World currencies are realigned, dollar devalued 8.6 percent. |
| M. February 1972----- | U.S. interest rates hit low point. Federal funds 3.3 percent, commercial paper 3.8 percent. |
| N. June 23, 1972----- | British pound devalued after heavy speculation. Germany, Japan and Switzerland act to limit inflows of speculative funds. Italy acts to limit outflows. |

³ The reserve requirement was increased to 20% on January 7, 1971 in response to renewed home office borrowing from the branches. It was reduced to 8% effective June 21, 1973 and to 4% effective May 22, 1975. The reserve-free bases were eliminated gradually, the last being eliminated on March 14, 1974.

TABLE I—*Major International Monetary Events, 1966-75—Continued*

| | |
|----------------------------------|---|
| O. Feb. 12, 1973----- | U.S. dollar devalued 10 percent following announcement of \$29.7 billion official reserve transactions deficit and subsequent speculation. |
| P. Feb. 23, 1973 | Renewed speculation against the dollar. |
| Q. March, 19, 1973 | Adoption of floating exchange rates. European countries especially France, Switzerland, Germany, Spain, the Netherlands, Belgium and Luxembourg—impose reserve requirements on external liabilities and take other measures to curb capital inflows. |
| R. May 1973 | Sharp devaluation of floating dollar occurs. |
| S. June 1973 | U.S. reduces reserves against excess Eurodollar borrowings from 20 percent to 8 percent. |
| T. July 1973 | Voluntary Foreign Credit Restraints are extended to agencies and branches of foreign banks with over \$1 million dollars in foreign assets. |
| U. September 1973 | U.S. interest rates reach new high. Federal funds rate rises to 10.8 percent. Prime commercial paper rate reaches 10.5 percent. |
| V. October 1973 | Japanese Yen depreciates 12 percent against the dollar. |
| W. January 1974 | U.S. eliminates interest equalization tax, foreign direct investment program and voluntary foreign credit restraint program: France, Germany, Japan, Belgium-Luxembourg relax capital controls especially on domestic banks to encourage inflows and discourage outflows. |
| X. January 1974 | The dollar begins its slide against the German mark; depreciation equal to 15 percent by April. |
| Y. June 1974 | Tight monetary conditions and historic high point for U.S. interest rates lead to gradual appreciation of the dollar until late 1974. Federal funds rates peak at 13.55 percent and Commercial Paper rates peak at 12.2 percent in July. |
| Z. July–August 1974 | Bank failures lead to tight international credit conditions and stem the growth of the Euro-dollar market. U.S. and European banking authorities tighten surveillance of banks' foreign exchange operations, particularly forward transactions. |
| AA. Late 1974–March 1975 | Dollar depreciates against all but the British pound and Canadian dollar. U.S. interest rates decline. |
| BB. March 1975 to September 1975 | U.S. dollar appreciates. Federal funds rate and Eurodollar rates rise in June. |
| CC. April 5, 1975 | Federal Reserve lowers Eurodollar reserves requirements to 4 percent. |
| DD. July 1975 | Italy imposes ceilings on its banks' net external indebtedness. |
| EE. September to October 1975 | U.S. dollar depreciates. Federal funds and Eurodollar rates decline, September through November. |
| FF. November & December 1975 | U.S. dollar resumes its upward movement. Federal funds and Eurodollar rates rise. |

Chart 2 HOME OFFICE CLAIMS ON FOREIGNERS



J F M A M J J A S O N D J F M A M J J A S O N D
1971 1972

196

Chart 2 cont.

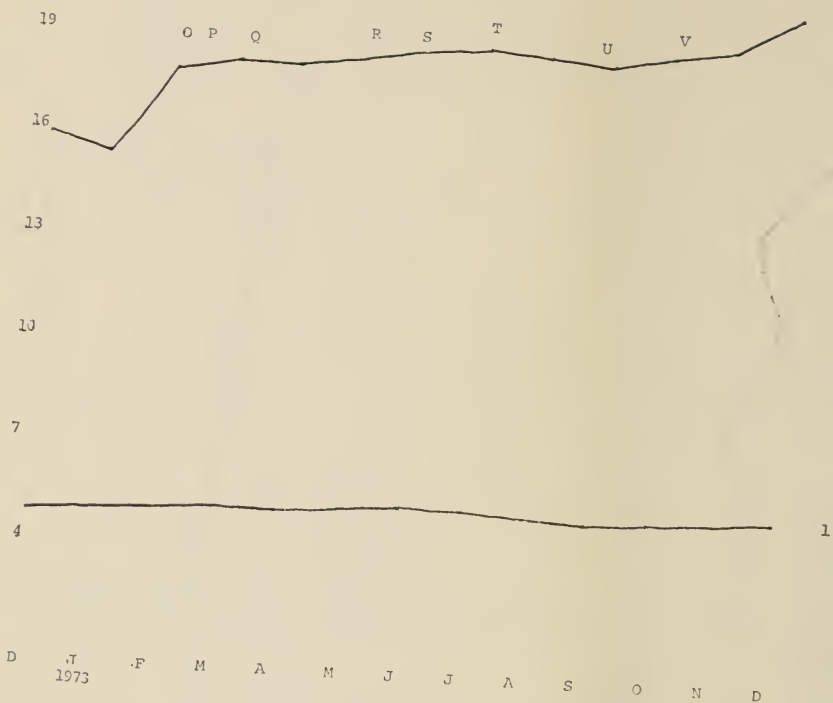


Chart 2 cont.

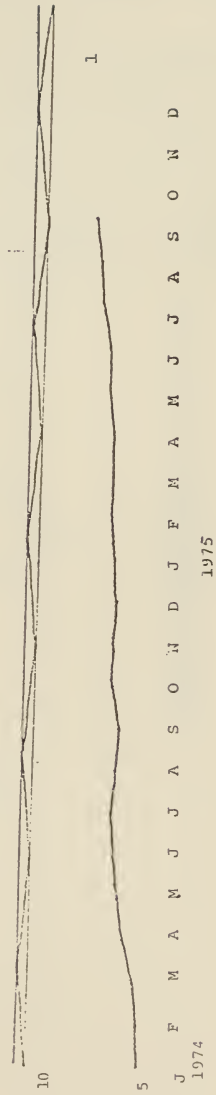
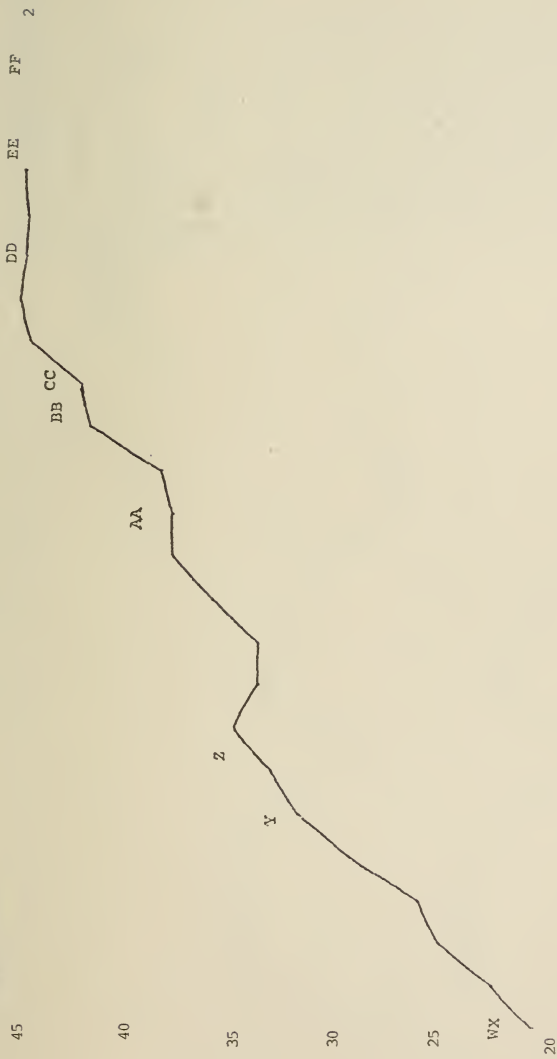
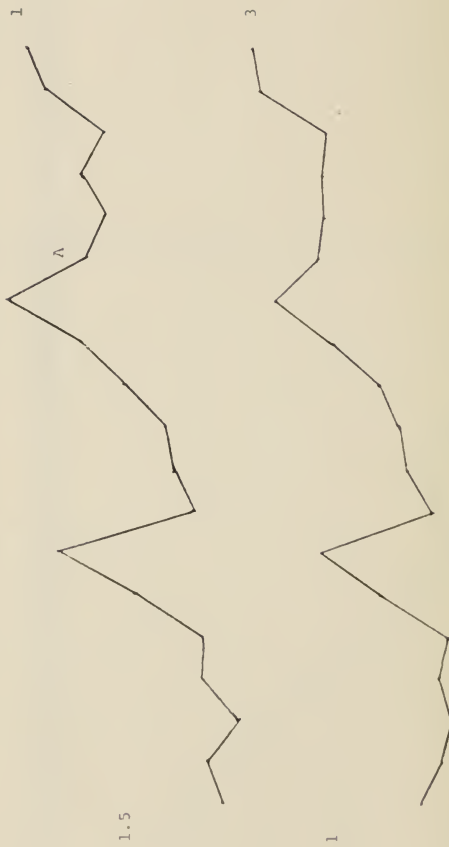


CHART 3
CLAIMS OF FOREIGN BRANCHES OF U.S. BANKS
 (\$ BILLIONS)



1. Claims against foreign banks
2. Claims against foreign banks payable in dollars
3. Claims against non-bank foreigners

Note: There was a change in reporting requirements in September 1969.

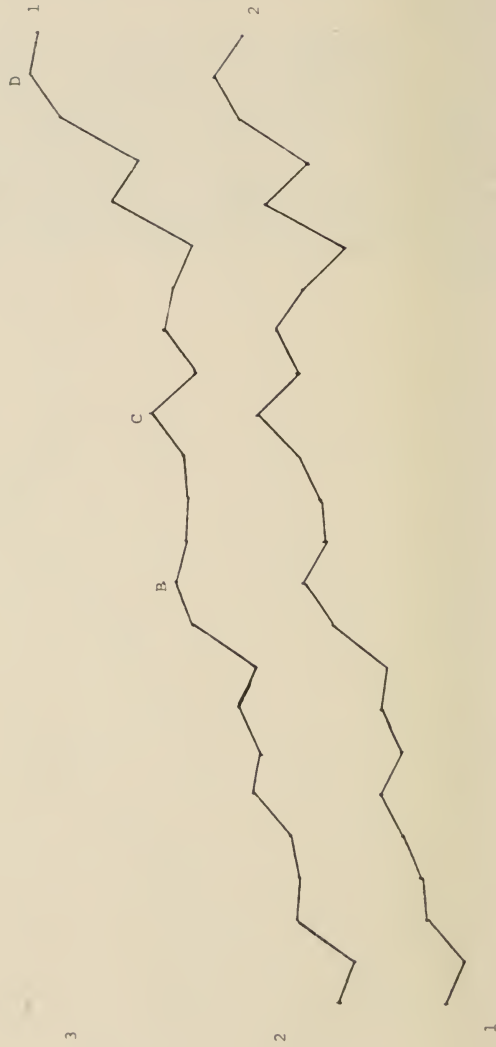
J J A S O N D J F M A M J J A S O N D

1966

The results were mixed. Inflows ceased as they would have in any event given falling loan demand and interest rates, and repayment to the branches was undoubtedly encouraged by falling interest rates in the United States, the low point occurring in March, 1971. (See Table I for the key to dates of events noted on the Charts.) But banks did repay \$6 billion of the borrowed Eurodollars in 1970, contributing the major share of the massive balance of payments deficit that occurred in that year.

In March 1971, U.S. interest rates reached a low point. Increasingly it was thought that the deficit of the previous year was indicative of the weakness of the dollar and an indication that it would soon be devalued. There was an incentive to U.S. banks to loan funds to the external market and, while foreign central banks complained of holding too many dollars, there was a demand for dollar loans by private foreigners and foreign banks for speculative purposes. U.S. banks were able to increase their foreign lending under the VFCR guidelines because an exemption for export credits was enacted by Congress in 1971.

Chart 3 cont.



J F M A M J J A S O N D J F M A M J J A S O N D
1967 1968

Chart 3 cont.

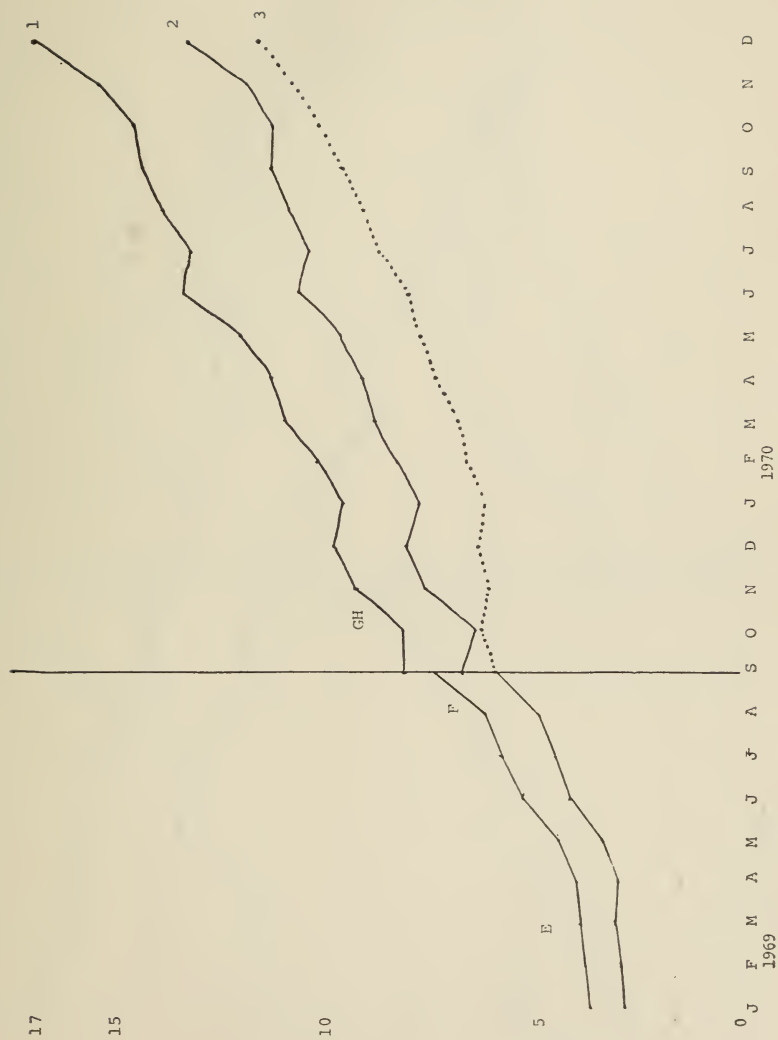


Chart 3 cont.

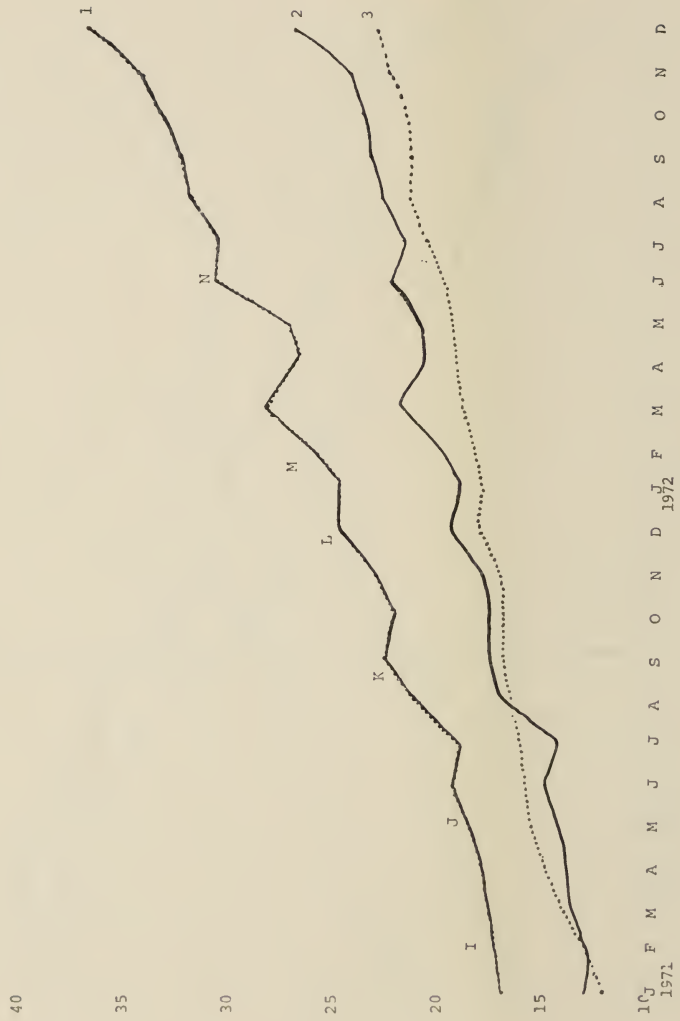


Chart 3 cont.



Chart 3 cont.



CHART 4

45

1. Liabilities to foreign banks
2. Liabilities to foreign banks payable in dollars - not available before Sept. '69
3. Liabilities to non-bank foreigners
4. Liabilities to official institutions - not available before Jan. '67.

20

5

J J A S O N D J F M A M J J A S O N D
1966

THE ROLE OF U.S. BANKS' FOREIGN BRANCHES IN CURRENCY
SPECULATION

The history of banking reform in the United States in the first third of this century is the history of a sustained assault on the abuse of credit for speculative purposes. Echoes of the campaign against commodity speculation can be found even in the little legislation extant on international banking—the prohibition in the Edge Act (Section 25a of the Federal Reserve Act) against trading in commodities or providing funds to officers or directors for that purpose. It is therefore ironic that one of the first major problems to occur in the international banking activities of U.S. banks during the last decade involved speculation in cocoa futures. More recently, international banking units of U.S. banks and foreign banks as well, have suffered losses because of foreign exchange speculation. These losses have occurred since the advent of floating rates in 1973. Before that, international banks were major beneficiaries of currency speculation under a system which insured that the speculators were rarely the losers. As has been widely discussed, the overt losers were central banks, some of which lost reserves trying to maintain the value of their currency while others, for the same reason, gained superfluous reserves which fed domestic inflation.

It is perhaps inevitable that whenever fluctuations in prices present the opportunity for profit, credit will be generated to meet the demands of those who seek to take advantage of such a situation. When the prices in question are prices of currencies, the generating of credit to meet speculative demand will itself affect the price and the resulting consequences can be quite serious. The coincidence of peaking of assets and liabilities of foreign branches of U.S. banks concurrently with monetary crises suggests just such a mechanism.

Charts 1 and 2 trace selected assets and liabilities of foreign branches of U.S. banks from 1966 to 1975 and relate increases and decreases in various types of claims and liabilities to major international monetary events, during the same period (Table 1). These charts indicate that claims on non-bank foreigners show some degree of correlation with currency crises but that liabilities to non-bank foreigners and to official institutions show no correlation at all. Loans and liabilities to non-related foreign banks show a high degree of correlation, both in total amounts and amounts payable in dollars.

Chart 3 consolidates the data on loans and liabilities to foreign banks and more clearly outlines the relationship between these inter-bank transactions and periods of currency speculation. The fact that the sharpest bout of speculation occurred at the time of the second

devaluation of the dollar in 1973 is more evident here than in the other charts. The widening gap between lines 1 and 2 and lines 3 and 4 reveals that in 1973, the branches substantially increased the portion of interbank claims which were foreign currency deposits in other banks, and also borrowed from banks more funds denominated in foreign currencies. By 1975, their foreign currency liabilities to other banks were substantially greater than interbank claims denominated in foreign currencies.

A large portion of the foreign currency liabilities borrowed by the branches from other banks were loaned to non-bank foreign customers. As Chart 4 indicates, non-dollar loans to the external market have increased steadily since 1971, while the amount of foreign currency deposits from non-bank sources has increased very little. Total liabilities to non-bank foreigners have, in fact, grown very little in relation to increases in total liabilities over the 5 year period covered. These liabilities show almost no correlation with monetary events. Loans to non-bank foreigners do show such a correlation and indicate that during the speculative crises of 1973, the branches borrowed foreign currency deposits from other banks and loaned a large portion of these funds to non-bank borrowers.

As chart 2 reveals, short-term home office loans to foreigners also show a high degree of correlation with currency crises between January 1971 and March 1973 as do repayments by U.S. banks' home offices to their foreign branches (chart 1). Some of the excess funds generated by the sharp increases in loans and deposits of the foreign branches as a result of speculative activity were absorbed by the parent banks—or seemingly borrowed by them—and then repaid when another wave of speculation created a demand for dollar loans in the external market.

March 1973 was a low point for borrowing by banks in the United States from their overseas branches, and a high point for short-term loans by home offices to foreigners.

During the rest of the year, the level of foreign lending remained relatively stable. In January 1974, the VFCR program was ended. The impact of its termination is reflected in both charts 1 and 2. As the charts reveal, there was a dramatic increase in short-term loans to non-related foreigners as well as in loans to U.S. banks' overseas branches. This occurred even as rising loan demand in the United States and Federal Reserve tight money policies forced interest rates to the highest levels of the century. These conditions should have resulted in inflows of funds and an appreciation of the dollar far earlier than June 1974 when these results did occur. But the level of outflows during the first half of the year and the depreciation in the value of the dollar appear to have had a very destabilizing effect on the U.S. economy.

Chart 4 cont.



Chart 4 cont.

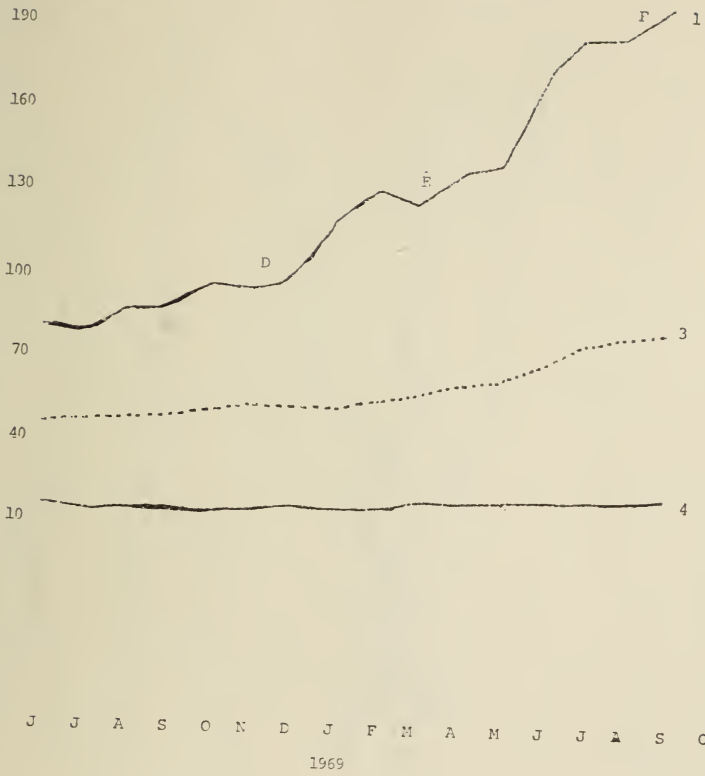


Chart 4 cont.

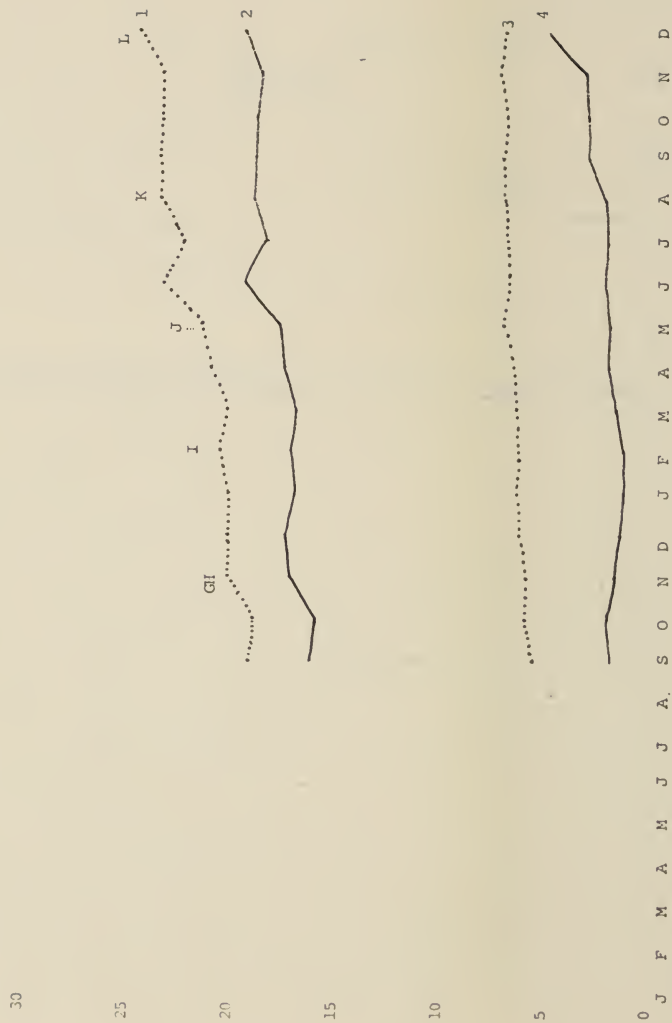


Chart 4 cont.

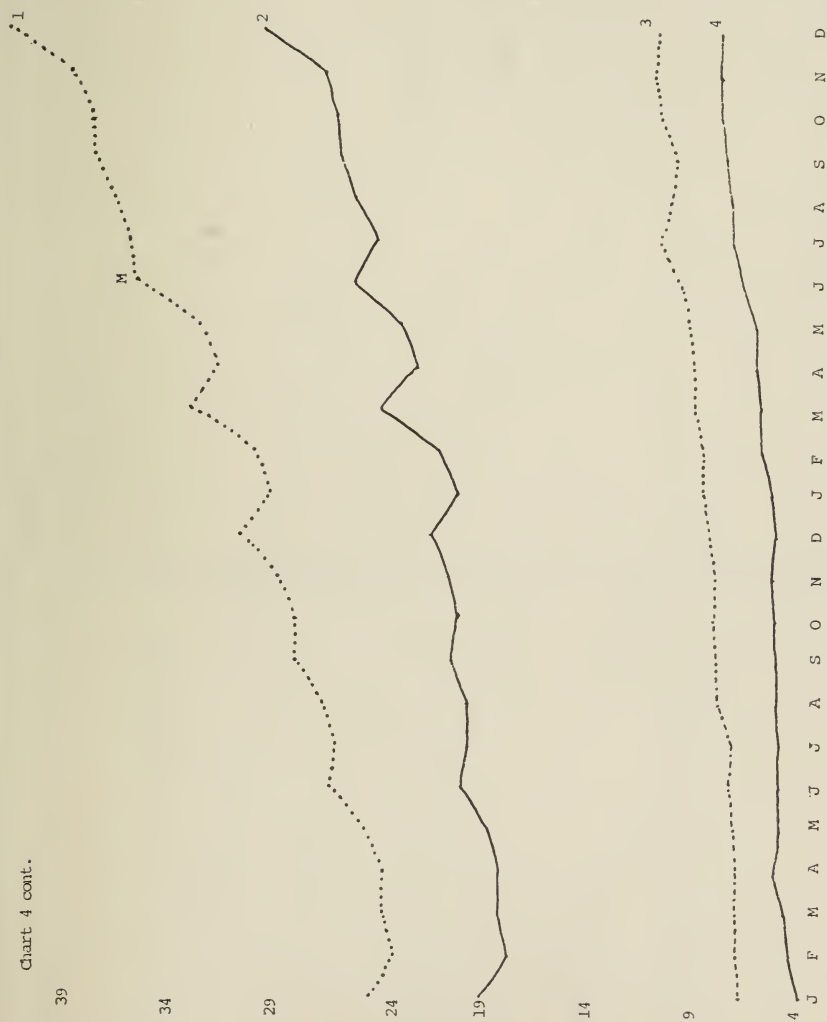


Chart 4 cont.

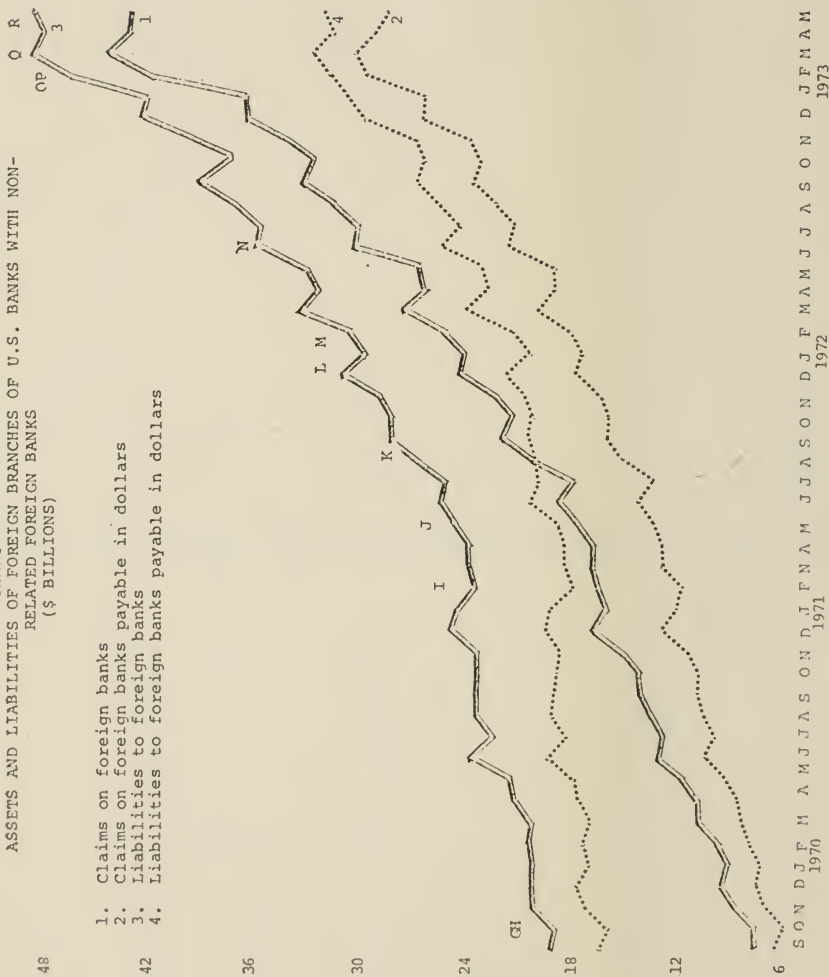


Chart 4 cont



ASSETS AND LIABILITIES OF FOREIGN BRANCHES OF U.S. BANKS WITH NON-RELATED FOREIGN BANKS
(\$ BILLIONS)

1. Claims on foreign banks
2. Claims on foreign banks payable in dollars
3. Liabilities to foreign banks
4. Liabilities to foreign banks payable in dollars



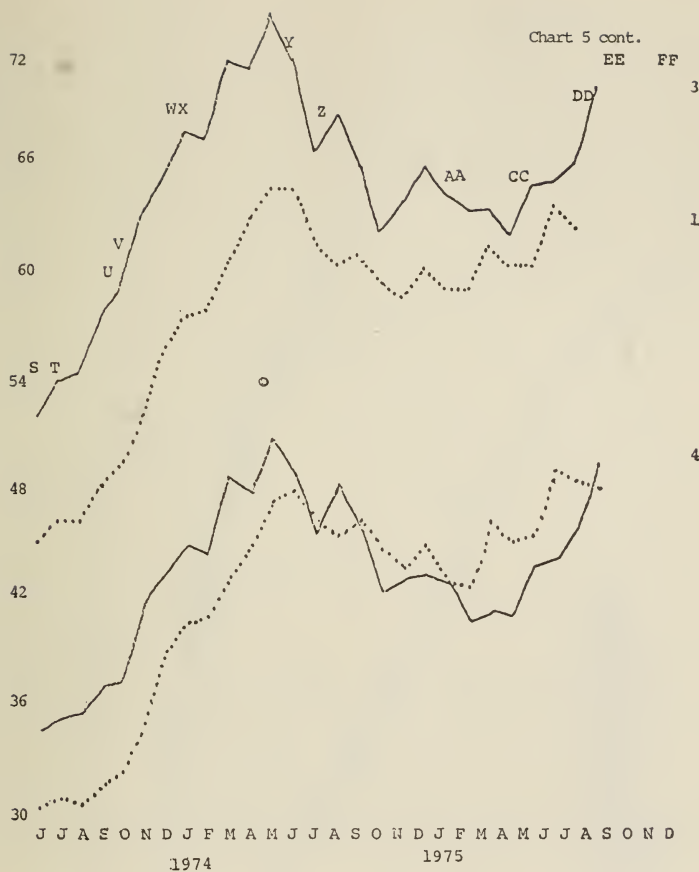
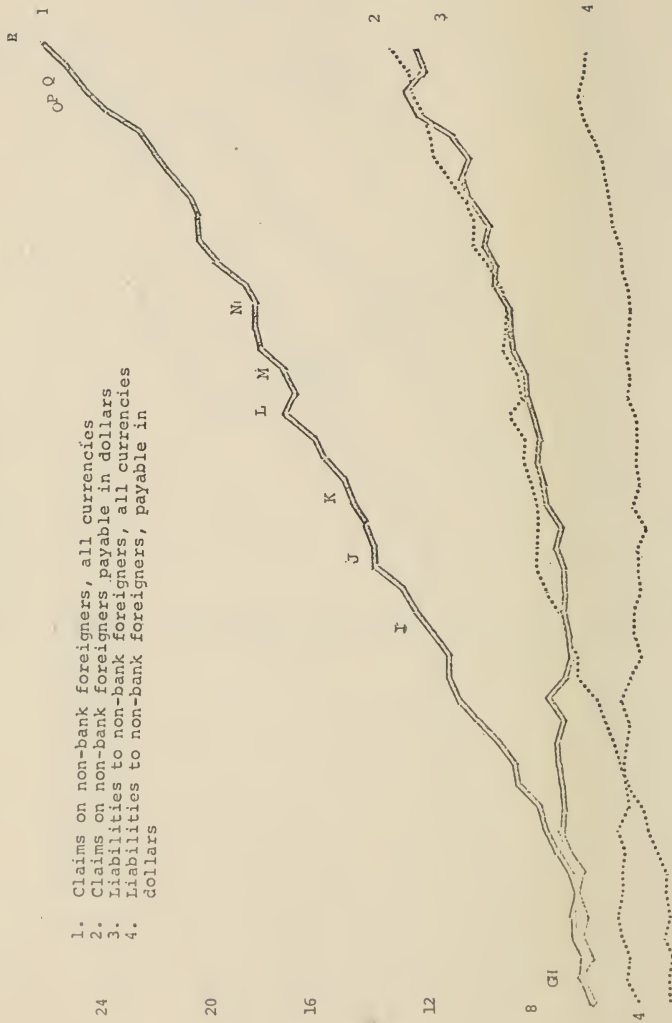
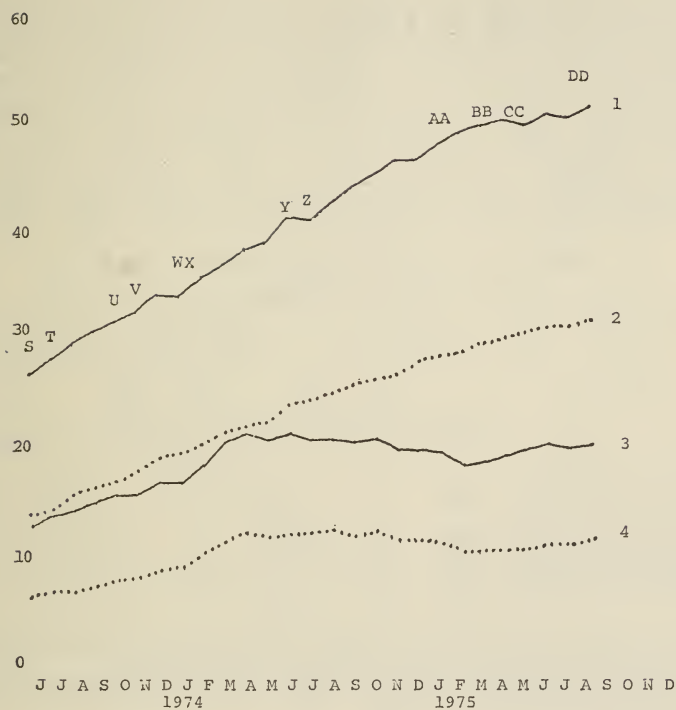


CHART 6
BRANCH CLAIMS AND LIABILITIES ON NONBANK FOREIGNERS
(\$ BILLIONS)



SONDJFMAJJAASONDJFMAJJAASONDJFMAJJAASONDJFMAJ
1970 1971 1972 1973

Chart 6 cont.



FOREIGN LENDING BY U.S. BANKS IN 1974-75

Following the termination of the Voluntary Foreign Credit Restraint Program in 1974 there was a substantial increase in short-term claims on foreigners (\$18 billion) and a large increase in short-term liabilities in this category as well. In the first half of 1975, foreign loans increased further but liabilities declined. By comparison with the short-term data, long-term claims on and liabilities to foreigners are quite small. Banks in the United States increased term loans to foreign borrowers slightly less than \$22 billion over the 18 month period from December 1973 to June 1975, indicating that their foreign branches continued to handle most of their foreign lending. Their long-term liabilities to foreigners fell in 1974 and had risen to only \$1.4 billion by June 1975, a little less than the December 1973 level.

TABLE II.—FOREIGN ASSETS AND LIABILITIES OF U.S. BANKS

[Dollar amounts in billions]

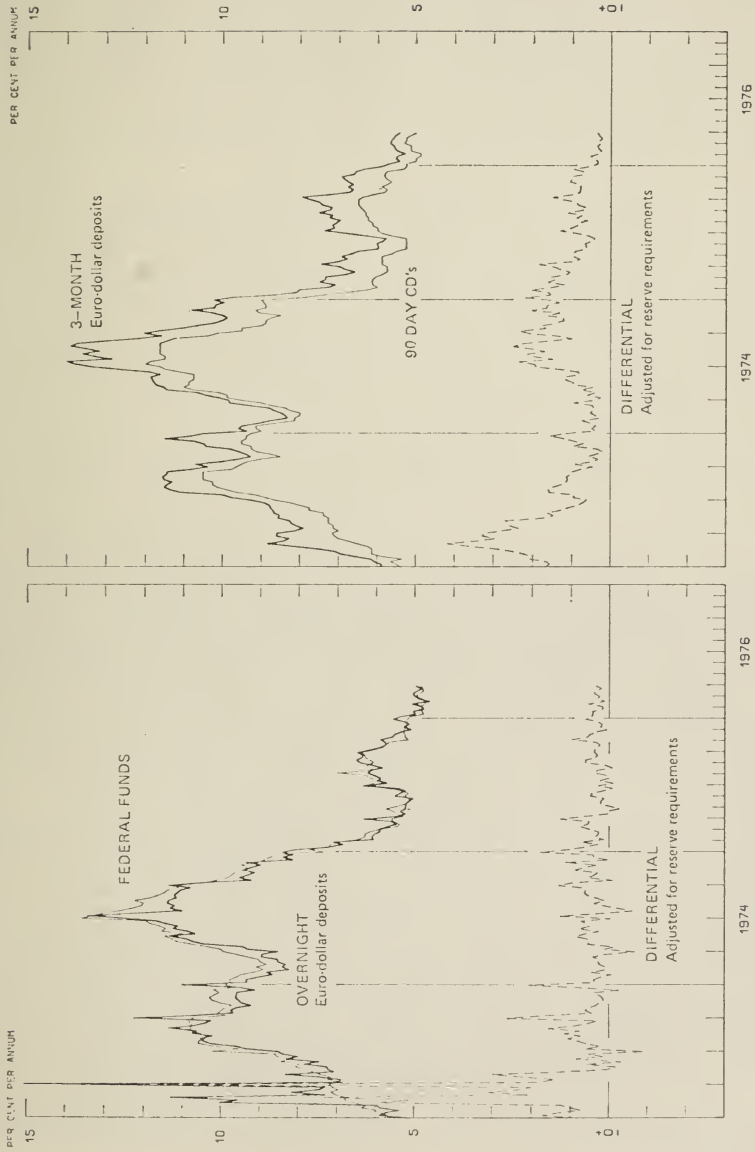
| | December 1973 | | | December 1974 | | | June 1975 | | |
|--|---------------|-------------------------------|--|---------------|-------------------------------|--|-----------|-------------------------------|--|
| | Total | Per- cent in- crease | Per- cent pay- able to banks | Total | Per- cent in- crease | Per- cent pay- able to banks | Total | Per- cent in- crease | Per- cent pay- able to banks |
| Long term claims on foreigners by U.S. banks | 5,996 | 18 | ----- | 7,156 | 19 | ----- | 7,915 | 10 | ----- |
| Short term claims on foreigners by U.S. banks | 20,723 | 32 | 21 | 38,913 | 87 | 18 | 45,705 | 17 | 15 |
| Long term liabilities to foreigners by U.S. banks | 1,462 | 43 | ----- | 1,285 | -12 | ----- | 1,411 | 9 | ----- |
| Short term liabilities to foreigners by U.S. banks | 69,074 | 13 | 34 | 94,847 | 37 | 42 | 92,323 | -2 | 41 |

¹ Excludes short term claims of U.S. banks on their foreign branches and claims of U.S. agencies branches of foreign banks on their head offices and foreign branches. These are reported in the total not by type.

² Includes deposits, U.S. Treasury bills and certificates and liabilities of U.S. banks to their foreign branches, liabilities of U.S. agencies and branches of foreign banks to their head offices and foreign branches, bankers, acceptances, commercial paper, and negotiable time certificates of deposit.

Source: Federal Reserve Bulletin.

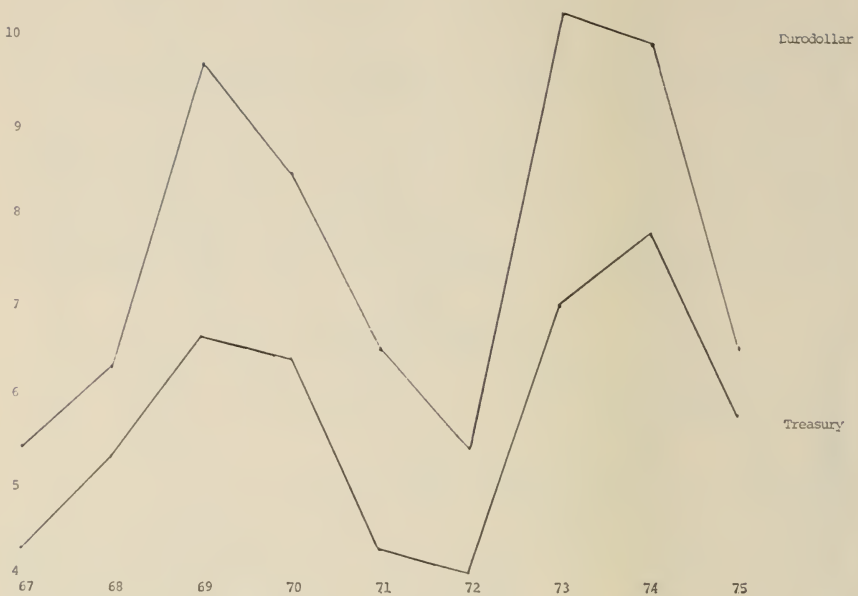
Chart 7
SELECTED EURO-DOLLAR AND U.S. MONEY MARKET RATES
 AVERAGES FOR WEEK ENDING WEDNESDAY



Favors Borrowing in U.S. if Positive

Chart 2
3 Month Eurodollar and Treasury Bill Interest Rates

11



But as the data also shows, on average some 40% of the short-term claims and liabilities are to foreign banks,⁴ and about 20% of the total is to non-related banks. Some portion of the approximately \$20 billion of short-term liabilities of U.S. banks to non-related banks are deposits of Eurobanks placed in the United States for clearing and maintaining liquidity ratios. Changes in interest rates in the United States and in international markets determine what portion of their dollar reserves these banks will hold in New York and what portion in U.S. banks' foreign branches in London or Nassau. These deposits, plus the short-term loans of U.S. banks to non-related foreign banks (approximately \$7 billion at year-end 1974) and the loans and liabilities of U.S. branches and agencies of foreign banks to their parents and of U.S. banks to their foreign branches are the principal vehicles for arbitrage between U.S. and international markets. At year-end 1974 they aggregated some \$19 billion in assets and \$33 billion in liabilities. The volatility of these funds makes the statement of precise figures somewhat difficult. Nevertheless, the amounts are large enough to affect shifts in interest rates between the very large U.S. money market and the Eurodollar market with the result that Eurodollar call rates and rates on overnight Federal funds move very closely together as do those on 3-month Eurodollar deposits and 3-month CD's in the United States (Chart 5).

⁴ While Table II shows only 18% of short-term claims payable to banks in 1974, this does not include amounts loaned by U.S. banks to their foreign branches (\$5.8 billion at year-end 1974) or amounts loaned by U.S. Branches and agencies of foreign banks to their parent banks (\$6.5 billion). Liabilities to these entities are included in amounts payable to banks in the data on short-term liabilities.

The problems of branches in the summer of 1974 and the efforts of their parents to assist by providing funds are discussed elsewhere. This was the period during which the Eurodollar interbank market shrank following the announced difficulties of Franklin National Bank in May and the collapse of the Herstatt Bank in June. Despite a record Federal funds rate of 13.55%, a differential which favored borrowing overnight Eurodollar deposits, and peak loan demand in the United States, U.S. residents and parent banks loaned approximately \$10 billion to the foreign branches as of mid-June, up from \$5 billion at the beginning of the year. This incident indicates that under some conditions the usual reasons for inflows and outflows do not apply.

The shake-out in the Eurodollar market may have been responsible for some of the continued outflow of funds from the U.S. parents during the remainder of the year as well. But the volume of commercial and industrial lending by U.S. banks rose again between September and November, 1974 as Federal funds and CD rates receded from the peak levels of the summer. The pressure of loan demand appears to be responsible for the sharp increase in borrowing by the parent banks from their branches (or repayment of branch borrowings to the parent), accompanied by a decline in branch borrowing in September, 1974. Other, smaller increases in parent bank borrowings from foreign branches occurred in November and January, 1975 but there was no decline in the level of lending to the branches during these periods.

At the beginning of 1975, loan demand began to fall and continued to decline until June, hitting a low about \$7.5 billion below the January peak and almost \$2 billion below the level of August, 1974 (Chart 2). Rates on Federal funds and CD's continued to fall and loans by parent banks and other U.S. residents to foreign branches rose to a level of approximately \$15.4 billion in March. Early in April, the Federal Reserve announced that it would lower reserve requirements on Eurodollars to bring the requirement "into better alignment with reserve requirements on the time and savings deposits of domestic residents", with the hope that this action "may strengthen the position of the U.S. dollar in the foreign exchange markets".⁵ It was thought that the depreciation of the dollar which began during the latter part of 1974 was related to the outflow of funds from parent banks and other U.S. residents to their foreign branches, as well as to the decline in U.S. interest rates and in economic activity in the United States.

The announcement of the reduction in the Eurodollar reserve requirement produced a \$500 million drop in outflows to branches in April and a matching \$500 million inflow. But when the new requirement became effective in late May, it did not produce the desired brake on outflows. There was an additional inflow of \$2 billion in May but it was quickly erased by a \$2 billion drop in June.

⁵ Federal Reserve press release of April 9, 1975.

CHART 9
COMMERCIAL AND INDUSTRIAL LOANS, ALL U.S. COMMERCIAL BANKS

CHART I - ASSETS OF OVERSEAS BRANCHES

In spite of the increased outflows in June, there was a rise in loan demand and in interest rates in the United States and the dollar appreciated in value. Branch claims on U.S. residents did fall \$1.5 billion over July and August and in August, the parent banks in the United States borrowed over \$3 billion from the branches but repaid almost all of the additional amount in September, together with additional advances to the branches of \$800 million in that month.

Loan demand had fallen in July but rose again in September. This upswing was accompanied by falling interest rates—the reverse of the situation between June and mid-July when both loan demand and interest rates rose. Declining interest rates and a continuation of outflows also resulted in a drop in the value of the dollar. Subsequently, there was another drop in loan demand (November to December) as interest rates rose but data on flows of funds between U.S. residents and foreign branches is not yet available for this period.

Reviewing the data on a month-to-month basis presents a somewhat confusing picture. Overall, loan demand in the United States was weak in 1975, interest rates were at moderate levels and there was a sustained outflow of funds to foreign branches of U.S. banks throughout the year. Given the generally low loan demand, shifts in interest rates were the determining factor in short-term flows between the foreign branches and U.S. residents. A glance at Chart 1 indicates how volatile those flows became in terms of the historical context. Most of the volatility reflects inflows from the branches rather than outflows, and occurred largely as a result of Federal Reserve policies to attract funds from the branches to offset the impact of dollar outflows. These attempts were not successful however, and to the extent that increases in interest rates during the summer and fall were related to this effort and to the related goal of strengthening the dollar, it may have undermined domestic recovery.

CHAPTER 12

CONCLUSION

The material in the previous section was compiled to illustrate the degree of integration between national and international financial markets and the mechanism through which it occurs. Such integration results in greater uniformity of credit availability among countries through flows of funds between them and helps to explain why the business cycles in developed countries now overlap. But it also makes it more difficult for domestic monetary policy to influence the course of the business activity in national markets.

The international financial market also influences the international monetary policies of nations. The use of balances denominated in external currencies as investment assets may have an impact on exchange rates which is at variance with economic events. Economic and political events would ordinarily serve as determinants and prognosticators of exchange rates under a floating rate system. But as an investment vehicle, the market could reflect speculative activity as well as become a vehicle itself for power politics. The development of international capital markets is not necessarily an undesirable but it does mean that, like domestic capital markets, the international exchange market should be subject to regulation in order not to damage economic activity.

Regulation of foreign exchange and foreign capital markets is all the more desirable because these markets are dominated by large banks which also serve as depository institutions. Participation by U.S. banks in currency speculation was made easy by the absence of regulation and disclosure. The rapid build-up of foreign currency assets and liabilities in their Foreign branches which occurred in 1973, as well as the substantial increase in forward foreign exchange contracts, weakened future bank soundness. Rapid entree into activities that require a high level of expertise and involve substantial new risk should have been discouraged. But the kind of monitoring necessary to discover the level of activity did not take place. Policy makers, therefore, had no data with which to assess some of the most remarkable international economic and monetary developments in the post-war era.

The absence of data applies also to the more traditional banking business of multinational banks. Recent disclosures have indicated that these banks have strayed beyond the U.S. regulatory framework in a number of areas. The absence of overt regulation of overseas activities and of disclosure has contributed to this trend. Loan concentrations—to countries, to industries, to customers, especially when those customers are other banks—and a widening gap between the maturities of loans and liabilities represent specific areas in which U.S. banks overseas branches exceed limits which the same banks scrupulously observe within the United States. And yet, as has been

argued, these are not separate banks but, rather, a part of the parent network and of the U.S. banking system.

The failure of Franklin National Bank demonstrated the degree of integration of domestic and international operations of U.S. banks. It also indicated that U.S. regulators could not take a *laissez-faire* attitude toward failures of large banks because such a high proportion of their liabilities are uninsured and because a substantial portion of uninsured liabilities are to other banks. It has been suggested that not only lack of disclosure but the implied guarantee against failure which seemed to be confirmed by the way Franklin was handled may encourage unsound banking practices.

This suggestion seems particularly applicable in assessing the concentrations of loans to individual countries extended by the largest U.S. banks. It appears likely that banks have assumed that these loans are in some sense guaranteed—that some form of governmental assistance will be given to a country to prevent a default that might threaten major banks. If such an outcome is likely, then there should be some public policy input to determine where, how and in what amounts the funds are to be used. If decisions involving the allocation of credit to other governments are to remain subject to the judgment of the private banking system there must be some assurance that the private sector will bear the brunt should default occur.

Analyses of interbank lending and capital adequacy have indicated that deposit insurance is no longer an effective means of instilling confidence in the banking system since so small a portion of the liabilities of large banks are insured and these banks—because of their size and interrelationship with other banks—have such an actual and potential impact on the banking system. Thus, for the private sector to bear the brunt of failure of one of these institutions without suffering major disruptions, some new method of providing a margin of safety must be devised.

Any solution should involve increases in bank capital along with regulation and control of the interbank markets. Another solution is for banks to pay insurance premiums in relation to the amount of uninsured liabilities. This latter suggestion may seem unreasonable since it would appear that banks with less insured deposits as a ratio to the total should pay proportionately less insurance. But, as the Franklin experience demonstrated, the reverse is true. Banks have assumed large uninsured liabilities with no commensurate increase in capital or decrease in risk taking. The FDIC is now administering the collateral acquired by the Federal Reserve Bank of New York when it paid off Franklin's *uninsured* deposits. The insured deposits were transferred to European-American Bank and Trust Co. It may be that, after the 14 years required to liquidate Franklin's portfolio and reclaim the funds that must be repaid to the Federal Reserve Bank in two years, the FDIC insurance fund will have suffered no loss. But that is not the point. The point is that it assumed the responsibility and the risk to guarantee deposits which were not insured. Further, this appears to be the only acceptable method of handling large failures in the future since the alternative suggested by banking regulators is to permit their acquisition by other large banking institutions in other states or from other countries, which has the effect of increasing banking concentration.

Regulators have discovered that overseas activities of many U.S. banks were not well managed and are now encouraging the development of uniform internal controls and audits. A better degree of managerial involvement is necessary in a number of areas, especially with regard to control over foreign subsidiaries and affiliates. But it is also possible that the failure of U.S. regulators to assume responsibility for providing an adequate and unambiguous regulatory framework for overseas activities has contributed to some of the managerial problems that have developed. The suggestion has been made that the same regulatory standards which apply to domestic activities should apply to those overseas. Since this suggestion was made by a knowledgeable and experienced international banker, it cannot be viewed as overrestrictive.¹

The same banker also supported the suggestion that the range of activities of U.S. banks overseas be limited to those permitted in the United States.² It is hoped that the material in Chapter 3 and Appendix A have indicated just how much at variance with domestic restrictions these activities are and that the risks involved, and the actual and potential conflicts of interest are real.

In addition to its concerns for bank soundness and the quality of regulation and supervision, this study has also attempted to call attention to the fact that efforts to increase competition in international banking principally through the licensing of shell branches and of joint ventures, have not been worth the candle. No specific suggestions or remedies to improve the situation have been offered. But, again, it is hoped that the effort to demonstrate the extent of banking concentration in these markets and to explore some of the implications of the degree of concentration have been successful in indicating the seriousness of the problem.

¹ See the excerpt from a letter to Congressman St Germain from Richard H. Cummings, Executive Vice President, National Bank of Detroit, at the end of Chapter 5.

² See the excerpt from Mr. Cummings' letter quoted in Chapter 3.

APPENDIXES

APPENDIX A

OVERSEAS INVESTMENTS OF U.S. BANKS

APPENDIX A OVERSEAS INVESTMENTS OF U.S. BANKS

| Name of country and overseas affiliate or subsidiary | Type of business | U.S. bank parent | Percent of ownership | Owned by— |
|--|--|---|------------------------|---------------------|
| Angola: | | | | |
| Banco Inter-Unido Luanda..... | Commercial bank..... | First National City Bank. | 50 | B |
| Societe de Fomento de Quicuchi S.A.R.L., Luanda. | Agriculture..... | do..... | 1 | S _B |
| Afghanistan: | | | | |
| Industrial Development Bank of Afghanistan Kabul. | Development bank.. | Chase Manhattan..... | 7.5 | E |
| Argentina: | | | | |
| *Editorial Codex, S.A., Buenos Aires..... | Publishing company.. | Bank of America..... | 1.8 | E |
| *BT Rio De La Plata, S.A., Buenos Aires..... | Commercial bank..... | Bankers Trust..... | 100 | E |
| Bulco S.A., Buenos Aires..... | Insurance broker..... | do..... | 49 | E |
| Bullrich S.A. de Inversiones..... | Credit agency..... | do..... | 20 | E |
| *Compania Argentina De Productores De Leche, S.A., Buenos Aires. | Milk processing..... | Chase Manhattan..... | (A) 6.8 (B) 3.1 | S _E |
| Nebis S.A., Buenos Aires..... | do..... | do..... | Option | E |
| Cooperativa Elctrica de Bariloche, Bariloche. | Service..... | do..... | Option | S _E |
| Cooperativa Elctrica de Puerto Despado, Desado. | do..... | do..... | Option | S _E |
| Cooperativa Elctrica de Saldungaray, Saldungaray. | do..... | do..... | Option | S _E |
| Cooperativa Lux y Fuerza Industrias Anexas de Renta Alta, Punta Alta. | do..... | do..... | Option | S _E |
| *Banco Argentino de Comercio, Buenos Aires. | Commercial bank..... | Chase Manhattan Bank, N.A. | *41.6 *31.3 | B E |
| Cooperativa Popular Limitada—Usina Elctrica de Comodoro Rivadavia. | Services..... | Chase Manhattan..... | | S _E |
| Debentures de Electronics Industrial Eximate BS, AS. | Wholesale trade..... | do..... | Option | S _E |
| Instituto Mexco de Inversiones Mobiliarias.. | Credit agency..... | do..... | Option | S _E |
| **Banco Shaw, S.A., Buenos Aires..... | Commercial bank..... | Continental Illinois N.B. & T.C. | *10.0 *10.3 *4.7 | E S _E |
| *Fidusse S.A., Buenos Aires..... | Argentina—Investment company. | Fidelity Bank..... | 33.8 | S _E |
| King Ranch, Argentina, Buenos Aires..... | Nonbanking..... | Kleberg First National Bank, Kingsville, Tex. | 100 | BHC |
| Heller Sudamerio Factor Sociedad Anonima de Services & Mandatos, B.A. | Business credit..... | American National Bank & Trust. | 50 | S _{BHC} |
| *Sociedad Anonlma de Servicios e Inversiones (SASIN) Buenos Aires. | Holding company..... | First National Bank of Boston. | 100 | E |
| **Corporacion Financiera de Boston Cia. Financiera S.A., Buenos Aires. | Financing activities..... | do..... | 100 | S _E |
| *International Factor S.A., Buenos Aires.... | Export-import services. | do..... | 100 | E |
| *Servicios Integrales S.A., Buenos Aires..... | Lease financing and writing conditional sales agreement. | First National City Bank. | 100 | S _{BEC} |
| *Ripco S.A., Buenos Aires..... | Real estate and equipment investment company. | do..... | 100 | E |
| Usina Popular Cooperativa Ltda de Necochea Sebastian de Maria, B.A. | Services..... | do..... | 1 | S _E |
| Citcard S.A. Commercial Financiera y de Servicios, Buenos Aires. | Personal credit..... | do..... | 100 | E |
| Banco Argentino del Atlantico S.A., Mar Del Plata. | Commercial bank..... | do..... | 80.1 | B |
| Cooperativa de Electricidao de Dionisia Ltda, Buenos Aires. | Services..... | do..... | 80.1 | S _B |
| Cooperativa de Electricidao Gral. Balear ce Ltda, Buenos Aires. | do..... | do..... | 80.1 | S _B |
| Cooperativa de Electricidao Mar del Plata Ltda, Buenos Aires. | do..... | do..... | 80.1 | S _B |
| *Banco Frances del Rio de la Plata, Buenos Aires. | Commercial bank..... | Morgan Guaranty Trust Co. | 42.5 | E |
| *Industrias Reconquista, S.A., Buenos Aires. | Holding company..... | do..... | 10 | E |

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

| Name of country and overseas affiliate or subsidiary | Type of business | U.S. bank parent | Percent of ownership | Owned by— |
|--|-----------------------------------|--|----------------------|-----------|
| Australia: | | | | |
| Alfred Grant Holdings Ltd., Brisbane | Real estate owner | Bank of America | 10 | SE |
| Australian Datronics Ltd., Sydney | Manufacture | do | 20 | SE |
| Computer Manufacturing Australia Pty, Ltd., Sydney | do | do | 25 | SE |
| Eastern Gem Co., Pty., Ltd., Sydney | Mining | do | 20 | SE |
| John McIlwraith Industries Ltd. Melbourne | Manufacturing | do | 3 | SE |
| Northern Agriculture Development Corp. Ltd., Sydney | Agriculture | do | 9 | SE |
| Tower Research Development, Melbourne | Investment company | do | 19.3 | SE |
| *Cliffs Western Australian Mining Co., Pty., Ltd., Perth | Iron ore mining | do | *10 | E |
| Partnership Pacific Ltd., Sydney | Finance | do | 33.3 | E |
| Commercial and General Acceptance Ltd., Sydney | do | do | .01 | E |
| Leasing Underwriting Ltd., Sydney | Leasing company | do | 20 | E |
| MBC International Ltd., Melbourne | Merchant bank | do | 20 | E |
| Wesdelf Ltd., Perth | Finance | Bank of New York | 25 | E |
| *Share Australia Management Co., Ltd., Sydney | Investment management | Bankers Trust Co | 5 | SSSE |
| | | | 30 | SE |
| | | | *5 | E |
| *Ord BT Co., Sydney | Investment banking | do | 94.4 | E |
| The Australia Fund of Funds, Sydney | Holding company | do | 3 | SE |
| Allian Investments Pty., Ltd., Sydney | Security and commodity broker | do | 13 | SE |
| Denise Investments Pty., Ltd., Sydney | do | do | 100 | SE |
| Eastrock Corp. Pty., Ltd., Melbourne | Credit agency | do | 14 | SE |
| First City Property Co. of Australia Ltd., Brisbane | Real estate | do | 13.8 | SE |
| Music Sales Pty., Ltd., Sydney | Retail | do | 5 | SE |
| Ord-BT Finance Pty., Ltd., Sydney | Credit agency | do | 100 | SE |
| Ord-BT Nominees Pty., Ltd., Sydney | Holding company | do | 100 | SE |
| Pendel Nominees Pty., Ltd., Sydney | do | do | 100 | SE |
| Raynsford Investments Pty., Ltd., Sydney | Investment company | do | 14 | SE |
| Ryan House Developments Pty., Ltd., Sydney | Real estate | do | 30 | SE |
| *Chase N.B.A. Group Depository, Ltd., Melbourne | Finance | Chase Manhattan Bank | 45 | E |
| *Consolidated Fertilizers Ltd., Brisbane | Fertilizer | do | .8 | SE |
| *All States Commercial Bills, Ltd., Melbourne | Finance | do | 45 | E |
| *Chase-N.B.A. Group Ltd., Sydney | Merchant banking, finance | do | 33.3 | E |
| *ANG Holdings Ltd., Port Morsby, Papua | Holding company | do | 2.8 | E |
| *Australia-New Guinea Corporation, Port Moresby, Papua | Finance | do | 3.1 | E |
| *Esperance International Pty., Ltd. Esperance | Land development | do | *11.2 | E |
| Alliance Holdings Ltd., Melbourne | Holding company | do | *23.0 | SE |
| | | | 18 | E |
| | | | *14.8 | E |
| *Development Underwriting Ltd., Sydney | Finance | Chemical Bank | 10 | E |
| *Commercial Continental, Ltd., Sydney | Merchant bank | Continental Illinois | 19.3 | E |
| Commercial Continental Securities Ltd., Sydney | Nonbanking money market operation | do | 19.3 | E |
| *Australian International Finance Corp. Ltd., Melbourne | Merchant bank | Crocker National | 20 | E |
| *Do | | | | |
| Manufacturers International (Australia) Pty., Ltd., Sydney | Financial institution | *Irving Trust Manufacturers National Bank of Detroit | 20 | E |
| | | | 10 | E |
| Permanent Finance Corporation Ltd., Brisbane | do | do | 10 | E |
| King Ranch (Australia) Pty. Ltd., Melbourne | Nonbanking | Kleberg First National Bank, Kingsville, Tex. | 10 | BHC |
| Associated Station Pty. Ltd., Sydney | do | do | 10 | SBHC |
| Avon Downs Pty. Ltd., Sydney | do | do | 10 | SBHC |
| King Ranch (New Zealand) Ltd., Sydney | do | do | 10 | SBHC |
| King Ranch Development Co. Pty., Ltd., Sydney | do | do | 10 | SBHC |
| King Ranch Management Service Pty. Ltd., Sydney | N/A | do | 10 | SBHC |
| Queensland Northern Territory Pastoral Co., Brisbane | Nonbanking | do | 50 | SBHC |
| | | | 50 | SBHC |
| Plythe Bros. Pty., Ltd., Sydney | do | do | 25 | SBHC |
| | | | 75 | SBHC |

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

| Name of country and overseas affiliate or subsidiary | Type of business | U.S. bank parent | Percent of ownership | Owned by— |
|---|---------------------------------|---|----------------------|-----------|
| Australia—Continued | | | | |
| D. K. Gordon Pty. Ltd. Sydney | Nonbanking | Kleberg First National Bank, Kingsville, Tex. | 25 | S BHC |
| Hann River Pastoral Co. Pty. Ltd., Sydney | do | do | 25 | S BHC |
| King Ranch Pastoral Pty. Ltd., Sydney | do | do | 75 | S BHC |
| Glenroy Pastoral Co., Sydney | do | do | 70 | BHC |
| | | | 1 | S S BHC |
| | | | 49.5 | SS BHC |
| | | | 49.5 | SS BHC |
| Mount House Pastoral Co., Sydney | do | do | 50 | SS BHC |
| | | | 50 | SS BHC |
| D. K. Gordon Pty. Ltd., Sydney | do | do | 75 | S BHC |
| Cult Cattle Co. Pty. Ltd., Sydney | do | do | 100 | S BHC |
| Walter E. Heller Australia Ltd., Sydney | Business credit | American National Bank and Trust. | 50 | S BHC |
| Heller Factors Pty. Ltd., Sydney | do | do | 100 | S S BHC |
| Talcott Commercial Factors Pty. Ltd., Sydney | do | do | 100 | S BHC |
| *Industrial Acceptance Corp., Melbourne | Finance | First National City Bank. | 22.7 | S E |
| *Industrial Acceptances Corp. (Holding) Ltd., Melbourne | Holding company | do | 21.7 | S E |
| *Citinational (Holding) Pty., Sydney | do | do | 44 | E |
| *FICB-Waltons Corp. Ltd., Sydney | Finance | do | 50 | E |
| Arnotts First City Building Society, Victoria | Mortgage banker | do | 50 | E |
| *Computer Resources Pty., Ltd., Sydney | Computer services | Fidelity Bank | 10.2 | E |
| *Network Finance Ltd., Sydney | Real estate | do | 1.4 | E |
| *Do | Real estate loan financing. | Mellon National | 24.8 | E |
| *First Leasing, Australia, Melbourne | Leasing | First National Bank of Boston. | 50 | E |
| *Reinehr Industrial Lease and Finance Pty. Ltd., Melbourne | do | do | 100 | S E |
| *Consolidated Leasing Queensland Pty., Ltd., Melbourne (defunct). | do | do | 100 | S E |
| Boston Financial Ltd., Melbourne | Finance company | do | 100 | E |
| Aectus Finance Pty., Ltd., Melbourne | Credit agency | do | 100 | S E |
| Reinehr Industrial Lease (S.A.) Pty. Ltd., Melbourne | Insurance | do | 100 | E |
| Reinehr Industrial Lease (Queensland) Pty. Ltd., Melbourne | do | do | 100 | E |
| First Chicago Australia Ltd. | Credit agency | First National Bank of Chicago. | 100 | S E |
| *Delfin Industrial Finance Ltd., Sydney | Investment banking | Manufacturers Hanover | 11.1 | E E |
| *Development Finance Corp., Sydney | Finance | do | 13 | E |
| *Australian United Corp., Ltd., Melbourne | Holding company | Morgan Guaranty | 20.9 | S E |
| *Financial Leasing Corp. (Australia) Ltd., Melbourne | Leasing | do | 35 | E |
| *Investment and Merchant Finance Corp., Ltd. (IMFC), Adelaide | Merchant banking | National Bank of Detroit. | 24.5 | E |
| *IMFC Discount Ltd., Adelaide | Finance | do | 24.9 | E |
| *Australian Finance and Investment Co., Sydney | do | Philadelphia National Bank. | 20 | E |
| PNB International Finance Co.-Australia Ltd., Sydney | Finance company | do | 100 | E |
| Financial Resources Ltd., Melbourne | Finance | Union Bank, Los Angeles. | 22 | E |
| Provident International Corp., Ltd., Sydney | Holding company | Provident National Bank. | 80.2 | E |
| Provident Leasing Corp., Ltd. | Aircraft and equipment leasing. | do | 100 | E |
| *Mercantile Pacific Finance Ltd., Sydney | Leasing | Seattle-First National Bank. | 32.5 | E |
| Security Pacific Australia Ltd., Sydney | Merchant Bank | Security Pacific National Bank. | 100 | S E |
| *Tricontinental Corp. Ltd., Melbourne | do | Security Pacific NB. | 24 | E |
| *Euro-Pacific Finance Corp., Ltd., Melbourne | Finance | United California Bank. | 12.5 | E |
| *Martin Corp. Group Ltd., Sydney | do | Wells Fargo Bank NA. | 40 | S E |
| Seawest Pty. Ltd. Perth | Services | Wells Fargo | 33.3 | S E |
| Austria: | | | | |
| Austrian Airlines, Oesterreiche Luftverkehrs, Vienna | Airlines | Chase Manhattan Bank. | Nominal | S E |
| *Zentralkasse Der Volksbanken Oesterreiche Registrierte, Vienna | Clearing house | do | Negl. | S E |
| *Oesterreichische Kommerzialbank A.G., Vienna | Commercial banking | do | 74.5 | E |
| *Breisach Pinochof Schoeller, Vienna | do | Chemical Bank | 25 | E |
| *Conill Bank A.G., Vienna | do | Continental Illinois | 100 | E |
| *International Factors-Austria G.M.B.H., Vienna | Factoring | First National Bank of Boston. | 25 | S E |
| Interbank A.G., Vienna | Commercial bank | First National City Bank. | 50 | B |
| *Internationale Bank fur Aussenhandel A.G., Vienna | do | Philadelphia National Bank. | 10 | S E |

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

| Name of country and overseas affiliate or subsidiary | Type of business | U.S. bank parent | Percent of ownership | Owned by— |
|--|---------------------------------------|---|----------------------|-----------|
| Bahamas: | | | | |
| Morgan Guaranty Nominees Bank Ltd., Nassau. | Holding company.... | Morgan Guaranty..... | 100 | B |
| *Cisalpine As Alpine Overseas Bank Ltd., Nassau. | Bank..... | Bank of America..... | 8.3 | SSE |
| *Wobaco Trust Ltd., Nassau..... | Miscellaneous banking..... | do..... | 100 | SE |
| World Banking Corp. (Bahamas) Ltd..... | Commercial bank..... | do..... | 100 | SSE |
| World Banking Corp. Ltd., Nassau..... | do..... | do..... | 100 | SE |
| Trunoms Ltd., Nassau..... | Holding company..... | do..... | 100 | SSE |
| 50 Shirley St. Ltd., Nassau..... | do..... | do..... | 100 | SSE |
| *Bank One Realization..... | do..... | Bank of New York..... | 100 | E |
| **Bahamas International Trust Co., Nassau..... | Commercial bank..... | do..... | 15 | E |
| *Alexander Hamilton Services Ltd..... | Investment advisory services..... | do..... | (P)40 | E |
| *The Chase Manhattan Trust Corporation (Nominees) Ltd., Nassau..... | Nominees company.. | Chase Manhattan Bank..... | 100 | SE |
| *Chase Manhattan Trust Corporation, Ltd., Nassau..... | Banking and trust... | Chase Manhattan Bank NA..... | 100 | E |
| *Deltec Panamerica S.A., Nassau..... | Investment banking..... | Central National Bank, Cleveland, Ohio..... | 1.3 | E |
| *Do..... | do..... | Republic National Bank, Dallas..... | .8 | E |
| *Bank of Nassau Ltd., Nassau..... | Commercial banking.. | Bank of Virginia Co., Richmond, Va..... | (P)100 (C)75 | E |
| *Atlantic Management SA..... | Holding company..... | Fidelity Bank..... | .2 | SE |
| Campos Hermanos D.P.C..... | Steel and steel specialty products. | Fidelity Bank, Rosemont, Pa..... | 1.6 | SSE |
| Great Southwest Corp..... | do..... | do..... | 3 warrants | SSE |
| *American International Bank (Bahamas) Ltd., Nassau..... | Commercial banking..... | do..... | 100 | E |
| *Fidelity International Corp. (Bahamas) Ltd., Nassau..... | International investment banking..... | do..... | 100 | E |
| *Bank of Boston Trust Co. (Bahamas), Ltd., Nassau..... | Banking and trust... | First National Bank of Boston..... | 100 | B |
| Albaine Investment Ltd., Nassau..... | Holding company..... | First National City Bank..... | 100 | SB |
| **First National City Trust Co. (Bahamas) Ltd., Nassau..... | Trustees management..... | do..... | 100 | |
| *First National Nominees Ltd. (Nassau)..... | Holding company..... | do..... | 100 | SB |
| *Providence Associates Ltd., Nassau..... | Nominee company..... | do..... | 100 | SB |
| *Compass Bank & Trust Co. Ltd., Nassau..... | Commercial bank..... | First National Bank of Miami..... | 100 | SBHC |
| *Canusa Ltd., Freeport Grand Bahamas..... | Investment company..... | Wachovia..... | 20 | E |
| *Arawak Trust Co., Nassau..... | Banking and trust... | Marine Midland Bank-New York..... | 10.7 | SE |
| **New World Development Corp., Ltd., Nassau..... | do..... | Philadelphia National Bank..... | 100 | E |
| Rawson Trust Co., Nassau..... | Commercial bank..... | do..... | 25 | SE |
| *Deltec Panamerica S.A., Nassau..... | International finance..... | Provident National Bank..... | 1 | E |
| *Republic National Bank of New York (International), Ltd., Nassau..... | Commercial bank..... | Republic National Bank, New York..... | 100 | B |
| *Deltec Panamerica S.A., Nassau..... | Investment banking..... | State Street Bank & Trust Co., Boston..... | 4.2 | E |
| *Do..... | Private investment banking..... | Manufacturers National Bank, Detroit, Mich..... | 1.2 | E |
| *Do..... | Investment banking..... | Northwestern National Bank, Minneapolis, Minn..... | 1.1 | E |
| *Do..... | do..... | Mercantile Trust Co., St. Louis, Mo..... | .8 | E |
| *Bank of New Providence, Ltd., Nassau..... | Commercial banking..... | Chemical Bank..... | 50 | E |
| Bahamarine Ltd., Nassau..... | Transportation..... | do..... | 9 | SE |
| Portoken Properties Ltd., Bahamas..... | Nonbanking..... | Texas Commerce Bank, N.A..... | 100 | SB |
| AFC Agency Ltd., Nassau..... | Credit agency..... | Sterling National Bank & Trust Co. of New York..... | 100 | SBHC |
| Walter E. Heller & Co. (Bahamas) Ltd., Nassau..... | do..... | American National Bank & Trust..... | 100 | SBHC |

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

| Name of country and overseas affiliate or subsidiary | Type of business | U.S. bank parent | Percent of ownership | Owned by— |
|--|---|---|----------------------|-----------|
| Belgium: | | | | |
| *Banque du Benelux S.A., Antwerp..... | Commercial banking | Bankers Trust Co., New York | *16.7 | SE |
| *Institut de Reescompte it Gar, Brussels..... | Semiofficial finance institution. | Chase Manhattan Bank | *16.6 | SE |
| *Union Belge Des Banques S.A., Brussels..... | Bank | do | 1.5 | SE |
| *Locabel, S.A., Brussels..... | Active in the field of leasing equipment. | do | 2.3 | SE |
| Soc. Nat. de Credit a L'Industrie S.A., Brussels. | Semiofficial finance institution. | do | 10 | SE |
| *Caisse Interprof De Dep et De Vir De Titres, Brussels. | Clearinghouse for securities. | do | 1.1 | SE |
| *Coop De Liquid Du Terme De La Bourse De Brux S.A., Brussels. | Belgium professional organization. | do | | SE |
| *Comite de Liquid Des Operations a Terme De La Bourse De Fonds Publics Et De Change D'Anv., S.C.; Antwerp. | Professional organization. | do | | SE |
| **Banque de Commerce S.A., Brussels..... | Commercial banking | do | 49.8 | E |
| *Soc. Anveroise Pr. Favor La Bourse Finance S.C., Antwerp. | Professional organization. | do | 1.1 | SE |
| Foyers Pour Invalides de guerre et Aurtres Victimes du Devoir S.A., Antwerp. | Philanthropical organization. | do | 27 | SE |
| Association Nationale Belge Contre La Tuberculosis Asbl, Brussels. | do | do | 30 | SE |
| *Societe Anonyme Financiere d'Administration et de Gestion, Brussels. | Finance company | Continental Illinois | 100 | E |
| *Cooperative de liquidation du Terme de la Bourse de Bruxelles. | Miscellaneous banking. | do | 1 | SE |
| *Service Interbancaire, Brussels..... | do | do | 1 | SE |
| *La Caisse d'Avances et de Prets "Le Cap"..... | do | do | .1 | SE |
| *Institut de Reescompte & de Garantie..... | do | do | .2 | |
| *Continental Bank SA/N.V., Brussels..... | Commercial bank | Continental Illinois National Bank & Trust. | 100 | E |
| *Comite de Liquidation Operations Terme de la Bourse de Anvers. | Miscellaneous banking. | Continental Illinois | 1 | SE |
| *Union Belge de Banques..... | do | do | 1 | SE |
| *Caisse Interprofessionnelle Depôts et Virements Titres. | do | do | .8 | SE |
| *GRAC, Societe Anonyme NAMVR..... | Finance company | First National City Bank. | 100 | SE |
| *Spaarkas Financia Antwerp..... | Savings bank | do | 89.4 | SE |
| *Huisinvest N.V. Antwerp..... | Real estate | do | *.1 | SE |
| | | | *99.8 | SE |
| | | | *.1 | SE |
| *Assurantiemaatschappij Financia; Antwerp. | Insurance | do | 70 | E |
| Hypoteek en Beheermaatschappij Financia N.A., Antwerp. | Credit agency | do | 43.7 | E |
| | | | 20 | SE |
| | | | 20 | SE |
| *First National City Bank (Belgium) S.A., Brussels. | Commercial banking | do | 100 | B |
| *Credit, S.A., Namur..... | Consumers finance company. | do | 40.1 | SE |
| | | | *19.6 | E |
| | | | 40.1 | SE |
| Citilease S.A., Brussels..... | Business credit | do | 100 | BHC |
| Ramada Europe Inc. (Delaware), Brussels..... | Nonbanking | do | 20 | S BHC |
| Citicorp International Securities S.A., Brussels. | Securities and commodity broker. | do | 100 | E |
| *International Factor Belgium S.A., Brussels. | Factoring | First National Bank of Boston. | 33.3 | SE |
| Euroclear-Clearance Systems Ltd., Brussels. | Communication | First National Bank of Chicago. | .5 | SE |
| United California Bank, Brussels..... | Commercial Bank | United California Bank. | 99.9 | B |
| Heller Factoring S.A., Brussels..... | Business credit | American National Bank and Trust. | 50 | S BHC |
| Institute de Resscompte et de Garantie, Brussels. | Credit agency | Manufacturers Hanover Bank. | .2 | S B |
| Union Belge des Banques, Brussels..... | Commercial bank | do | .5 | S B |
| Manufacturers Hanover Bank/Belgium, Brussels. | do | do | 99.5 | B |
| Caisse Interprofessionnelle de Depots et de Virements de Titres. | Miscellaneous banking. | do | .1 | S B |
| Chemin de fer Belge, Brussels..... | Transportation | do | .01 | S B |

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

| Name of country and overseas affiliate or subsidiary | Type of business | U.S. bank parent | Percent of ownership | Owned by— |
|---|--|--|----------------------|-----------|
| Belgium—Continued | | | | |
| First Arts Leasing Co. S.A., Brussels..... | Real estate leasing..... | Morgan Guaranty..... | 100 | E |
| *Societe National de Investissement; Brussels. | Industrial develop- ment bank. | do..... | .03 | ES E |
| Euroclear Clearance System Ltd., Brussels | Wholesale bank..... | do..... | .3 | E S E |
| Society for World Wide Interbank Financial Telecommunication (S.W.I.F.T.). | Bank wire service..... | Manufacturers National Bank of Detroit. | T | E |
| Do..... | do..... | National Bank of Commerce of Seattle. | .05 | E |
| Do..... | do..... | Republic National Bank of Dallas. | T | E |
| Do..... | do..... | United California Bank. | T | E |
| Do..... | do..... | Allied Bank..... | .06 | E |
| Do..... | do..... | Chemical Bank..... | .2 | E |
| Do..... | do..... | Manufacturers Hanover. | T | E |
| Do..... | do..... | Morgan Guaranty..... | .4 | E |
| Do..... | do..... | First National Bank of Chicago. | .1 | E |
| Do..... | do..... | Franklin National..... | T | E |
| Do..... | do..... | Bank of America..... | .2 | S E |
| Do..... | do..... | Irving Trust..... | 10 | E |
| Bermuda: | | | | |
| Boundsgreen Ltd., Hamilton..... | Holding company..... | Wochtovia Bank..... | ----- | E |
| **Chemical Overseas Finance Corp., Hamil- ton. | Finance..... | Chemical Bank..... | 100 | E |
| *Morgan Guaranty Finance Ltd. (Bermuda) Hamilton. | do..... | Morgan Guaranty..... | 100 | E |
| Boundsgreen Company Ltd., Hamilton..... | Bermuda holding company. | Fidelity Bank of Rose- mont. | 10 | E |
| Do..... | do..... | Manufacturers National Bank of Detroit. | 10 | E |
| Brazil: | | | | |
| Petroquimica "Uniao," Ltd., Sao Paulo.... | Chemical producer.... | Provident National Bank. | .3 | E |
| Banco Internacional S.A., Recife..... | Commercial bank.... | Bank of America..... | 50 | B |
| *Petroquimica Uniao S.A., Capuava..... | Petrochemical products. | do..... | .7 | E |
| *Champion Celulose S.A., Sao Paulo..... | Paper manufactur- ing company. | Chemical Bank..... | 1.8 | E |
| *Continental Assessoria Financiera e Servicos, Ltd., Sao Paulo. | Holding company.... | Continental Illinois.... | 100 | E |
| *Banco Crefisul de Investimento S.A., Sao Paulo. | Investment bank.... | Continental Illinois National Bank & Trust Co., Chicago, Ill. | (C)11.8 (F)6.3 | E |
| B.I.F. Administraca. e Servicos S/C, Ltd., Sao Paulo. | Consulting services.... | Fidelity Bank, Rose- mont, Pa. | 100 | E |
| The Philadelphia National Bank, Brazil, Ltda. | Administrative man- agement for PNB representative in Brazil. | Philadelphia National Bank. | 100 | E |
| Banco de Investimento de Brazil, Rio de Janeiro. | Investment Bank..... | do..... | 5 | E |
| *Boston Financiera S.A., Sao Paulo, Credito Financiamento e Investimento. | Consumer and cor- porate sales financing. | First National Bank of Boston. | 99.99 | S E |
| Boston S.A., Sao Paulo..... | Holding company..... | do..... | 82.72 | E |
| Boston Exportadora-Importadora Ltda., Sao Paulo. | Transportation..... | do..... | 100 | S E |
| Boston Leasing Arrendamento Representa- coes E Servicos Ltda., Sao Paulo. | Business credit..... | do..... | 100 | S E |
| Karnuba Administracao Participacoes S.A., Sao Paulo. | Holding company..... | do..... | 100 | S E |
| *Boston Distribuidora de Titulos e Valores Mobiliarios Ltda., Sao Paulo. | Distribution com- pany of securities. | do..... | 99.95 | S E |
| *First Chicago "Servicos", Ltd., Sao Paulo.. | Representative office. | First National Bank of Chicago | 100 | E |

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

| Name of country and overseas affiliate or subsidiary | Type of business | U.S. bank parent | Percent of ownership | Owned by— |
|--|---------------------------------------|-----------------------|----------------------|-----------|
| Brazil—Continued | | | | |
| *Banco Lar Brasileiro S.A., Rio de Janeiro | Commercial bank | Chase Manhattan Bank. | NA | *B |
| Banco de Investimentos Lar Brasileiro, Rio de Janeiro. | Investment bank | do. | 100 | SE |
| *Filex Do Nordeste S.A. | Rubberware manufacturer; Recife. | do. | (P).2 | SSE |
| *Serasn (servicos de Assessoria) | Credit rating company. | do. | Nominal | SB |
| *Escola Americana Do Rio de Janeiro | Services. | do. | Nominal | SB |
| *Financiera Lar Brasileiro, S.A., Rio de Janeiro. | Finance company. | do. | 99.99 | S |
| *Distribuidora De Titulos E Valores Mobiliarios, Rio de Janeiro. | Dealer in securities and acceptances. | do. | 100 | BS |
| *Lar Brasileiro Administracao E Servicos S.A., Rio Janeiro. | Administration and service company. | do. | 100 | SB |
| *L.B. Comercio, Turismo E de Servicos, S.A., Rio de Janeiro. | Travel agency. | do. | C-25 P-100 | SB |
| *Cia Pernambucana de Borracha Sintetica | Synthetic rubber | do. | Nominal | SB |
| Adecif, Rio de Janeiro | Credit agency | do. | NA | SSE |
| Anhembi S.A., Centro de Ferras e Saloes, Sao Paulo. | Services. | do. | NA | SSE |
| Crescindo, Sao Paulo. | Miscellaneous banking. | do. | NA | SSE |
| Electrobras, Rio de Janeiro | Services. | do. | NA | SSE |
| Empresa Brasileira de Astronautica, Sao Jose dos Campos. | Miscellaneous banking. | do. | NA | SSE |
| Ind. Quimica de Alginatos, Natal | Wholesale trade | do. | NA | SSE |
| Primar S.A. Productos Industrias Legados do Mar, Belem | do. | do. | NA | SSE |
| Papeles Ondulado do Nordeste S.A., Recife. | Manufacturing. | do. | NA | SB |
| Public Utilities Mandatory | Nonbanking. | do. | NA | SB |
| Investments Supercentro Paulistana, Sao Paulo. | Services. | do. | NA | SB |
| Embraer—Federal Aeronautics, San Jose | Aeronautics manufacturer. | do. | T | SSE |
| Embraer, Rio de Janeiro | do. | do. | .1 | SSE |
| IMBEC—Instituto Brasileiro de Capitais Brazil. | do. | do. | | |
| American Chamber of Commerce; Rio de Janeiro. | Nonbanking. | do. | NA | SB |
| Banco Nacional de Desenvolvimento Economico, Rio de Janeiro. | Development bank. | do. | NA | SB |
| Clubs and associations N.A. | Nonbanking. | do. | NA | SB |
| Companie Brasileiro de Entrepotes e Comercio Rio de Janeiro. | Public administration. | do. | NA | SB |
| *Cia Bebidas Da Bahia, Salvador | Beer manufacturer Salvador Bahia. | do. | (P).02 | SSE |
| *Cia Bebidas Da Bahia | do. | do. | (P)3.8 | SE |
| *Santista Industrial Do Nordeste S.A., Recife. | Textiles. | do. | (P).9 | SE |
| *Primar S.A., Belem | Industrialized fishery. | do. | (P)2.9 | SE |
| *Malharia Industrial Do Nordeste, S.A., Recife. | Knitwear factory. | do. | *NA | SB |
| *Protecto S.A., Fortaleza | Paint and varnish fortaleza. | do. | (P)4.4 | SE |
| *Industria De Azulejos Da Bahia S.A. | Ceramics bahin. | do. | (P)2.5 | SE |
| *Cia Palmares-Hotels É Turismo (Sheraton Hotel); Rio de Janeiro. | Hotel | do. | (P)2.0 | SSE |
| Octagonal Empreedimentos, Ltd. Rio de Janeiro. | Holding company | do. | *.13 | SB |
| Compania Nordestina de Papeis, Joao Pessoa. | Paper manufacturer | do. | (P).2 | SE |
| Fazendas Reunidas Quixadia, S.A., Companhia Grande. | Cattle project | do. | NA | T |
| Pina—Intercambio Comercio e Industria e Pesca S.A., Belim. | Industrial fishery | do. | T | SSE |
| Oleama—Oleoginosos Do Maranhao S.A., San Luiz. | Vegetable-oil manufacturer. | do. | T | SSE |
| Compania Sisol do Brazil, S.A., Recife. | Fiter manufacture. | do. | T | SSE |
| | | | NA | SB |
| | | | | SSE |

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

| Name of country and overseas affiliate or subsidiary | Type of business | U.S. bank parent | Percent of ownership | Owned by— |
|---|---|---|----------------------|-------------|
| Brazil—Continued | | | | |
| Union Bank Representacao Ltda. Rio de Janeiro. | Representative office. | Union Bank, Los Angeles. | 100 | E |
| Citicorp Leasing S.A., Comercio e Arrendamento, Rio de Janeiro. | Business credit. | First National City Bank. | 100 | S BHC |
| Cresap., McCormick & Paget do Brazil Servicos, Ltda., Rio de Janeiro. | Miscellaneous banking. | do. | 100 | S BHC |
| Fazenda Canhotinho S.A., Quixeramobim-Ceara. | Agriculture. | do. | 1 | S E |
| Fundo ICI De Investimento, Rio de Janeiro. | Miscellaneous banking. | do. | 1 | S E |
| Banco Crefisul de Investimentos S.A., Sao Paulo. | Bank. | do. | 32.4 | S E |
| CIA de Seguros Argos Fluminense, Rio de Janeiro. | Insurance company. | do. | 20.6 | S E |
| I. B. Corretora Seguros S.A., Rio de Janeiro. | do. | do. | 24 | S E |
| Riba—Representacoes Participacoes e Administracao Ltda., Porto Alegre. | Holding company. | do. | 44.1 | S E |
| Bolsa de Valores do Rio de Janeiro, Guanabara. | Securities broker. | do. | 1 | S E |
| Caixa de Registro e Liquidacao da Bolsa de Valores do Rio de Janeiro, Guanabara. | Miscellaneous banking. | do. | 1 | S E |
| Fundo de Investimento Financional, Sao Paulo. | do. | do. | 1 | S E |
| Tierras-Titanio do Brasil, S.A., Bahia. | Mining. | do. | 1 | S E |
| *Administradora Finaco Ltda., Sao Paulo. | Real estate. | do. | 100 | B |
| *Companhia de Turismo Promocoes e Administracao, Sao Paulo. | Credit card. | do. | 33.3 | E |
| *Systems S.A., Sao Paulo. | Accounting systems company. | do. | 10 | S BHC |
| *FNC Comercio e Participacoes Ltda., Rio de Janeiro. | Holding company. | do. | 100 | E |
| *FNC Corretora de Titulos e Valores Mobiliarios S.A., Rio de Janeiro. | Brokerage house. | do. | 100 | E |
| *Citybank Credito Financiamento Investimento S.A., Rio de Janeiro. | Consumer lending. | do. | 100 | E |
| *Citybank Distribuidora de Titulos e Valoresmobiliarios S.A., Rio de Janeiro. | Securities dealer. | do. | 100 | E |
| *Piramide Administracao, Assessoria and Servicos S.C. Ltda., sao paul, rep. office. | do. | Bankers Trust. | *99.6 | E |
| Morgan Servicos e Participacoes, Ltda., Sao Paulo. | Financial services. | Morgan Guaranty. | *.4 | S E |
| Banco Finasa de Investimento, S.A., Sao Paulo. | Private development bank. | do. | 100 | E |
| *Banco de Investimento Credibanco S.A., Rio de Janeiro. | Investment bank. | Irving Trust Co. | 12.5 | E |
| Irving Trust Assessoria & Consultoria Ltda., Rio de Janeiro. | Representative office. | do. | 11 | E |
| Republic International Dallas do Brazil Servicos Financeiros Limitada, Sao Paulo. | Financial consultants. | do. | 99+ | E |
| MHT Servicos e Administracao, Ltda., Sao Paulo. | Limited liability investments. | Republic National Bank of Dallas. | 100 | E |
| *Poliolefinos, S.A. Industria e Comercio, Santo Andre. | Polyethylene plant. | Manufacturers Hanover Trust. | 1 | E |
| *Sao Paulo | do. | do. | 1 | E |
| MHT—Servicos e Administracao, Ltda., Sao Paulo. | Limited liability and investment company. | Bank of America. | 1.3 | S E |
| MH Leasing do Brazil, Sao Paulo. | Business credit. | do. | 3.9 | E |
| Imarui S.A., Importacao e Exportacao, Sao Paulo. | Transportation. | Manufacturers Hanover Trust. | 100 | E |
| Banco Devasa de Investimento, S.A., Rio de Janeiro. | Merchant bank. | Republic National Bank. | 99 | S BHC |
| *Security Pacific Administracao E Servicos Ltda., Sao Paulo. | do. | Security Pacific National Bank. | 22.4 | S E |
| Ultrafertil | Fertilizers. | do. | 99.95 | E |
| Wells Fargo Assessoria Financiera Ltda., Sao Paulo. | Credit agency. | First Pennsylvania. | <1 | F |
| King Ranch do Brazil, Sao Paulo. | Non banking. | Wells Fargo. | 100 | S E |
| Knoll International Moveis e Tecidos, Ltda., Sao Paulo. | Manufacturing. | Kleberg First National Bank, Kingsville, Tex. | 40.7 | BHC |
| | | American National Bank & Trust. | 100 | S S S S BHC |

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

| Name of country and overseas affiliate or subsidiary | Type of business | U.S. bank parent | Percent of ownership | Owned by— |
|--|------------------------|--|----------------------|-----------------------|
| Bolivia: | | | | |
| *Estalsa S.A., La Paz..... | Mining (tin)..... | Chase Manhattan Bank. | 8.3 | E |
| *Compania Minera del Sur S.A., La Paz.... | Mining..... | First National City Bank. | 10.4 | E |
| British Honduras: | | | | |
| *Atlantic Bank Ltd., Belize..... | Commercial banking. | Chase Manhattan Bank. | *20 | E |
| Burundi: | | | | |
| *Banque Commerciale du Burundi, Bujumbura. | do..... | Bank of America..... | .001 .01 | *E *S _E |
| Cameroon: | | | | |
| **Societe Generale de Banques au Cameroun Yaounde. | do..... | Bankers Trust Co..... | 10 | E |
| *Societe Camerounaise de Banque, Yaounde. | do..... | Morgan Guaranty..... | 5 | E |
| Canada: | | | | |
| *North Continent Capital Ltd, Vancouver.. | Investment finance.. | Bank of America..... | 49 | BHC |
| Montreal Trust Co., Montreal..... | Trust and real estate. | do..... | 15.5 | E |
| Sure Investments Ltd., Toronto..... | Credit agency..... | do..... | 100 | S _{BHC} |
| Industrial Factors Corp. Ltd., Montreal.... | do..... | do..... | 100 | S _B |
| Canadian Financial Corp., Montreal..... | Holding company..... | do..... | 76 | B |
| Canadian Affiliated Financial Corp., Montreal. | Credit agency..... | do..... | 100 | S _B |
| Continental Discount Corp., La Sarre, Quebec. | do..... | do..... | 100 | S _B |
| *Canadian Factors Corp. Ltd., Montreal.... | Factoring..... | Bank of Virginia..... | 100 | B |
| Canadian Financial Co-op., Montreal..... | Holding Company..... | do..... | | S _B |
| Continental Finance Corp., La Sarre..... | Personal credit..... | do..... | 100 | SS _B |
| Masco, Inc., Montreal..... | Real estate..... | do..... | 100 | SS _B |
| Place Donovan, La Sarre, Quebec..... | Holding company..... | do..... | 40 | SS _B |
| Bankers Utilities Corp., B.D.C., Ltd., Toronto. | Transportation..... | Bankers Trust..... | 100 | E |
| Builders Capital, Ltd., Toronto..... | Credit agency..... | Continental Illinois..... | 100 | BHC |
| Sovereign Mortgage Insurance Co., Toronto.. | Mortgage banker..... | do..... | 20 | BHC |
| First Chicago Leasing of Canada, Ltd., Toronto. | Personal credit..... | First National Bank of Chicago. | 100 | BHC |
| *Canadian Real Estate Research Corp., Ltd., Toronto. | Real estate..... | do..... | 25 | S _{BHC} |
| First North America Investment, Ltd., Montreal. | Business credit..... | First Pennsylvania..... | 100 | BHC |
| First North America Leasing, Ltd., Toronto.. | do..... | do..... | 100 | BHC |
| Canadian Equipment Leasing Co. Ltd., Montreal. | Leasing company..... | Chemical Bank..... | 25 | E |
| Decca Resources Ltd., Calgary..... | Oil..... | Wachovia Bank & Trust. | 9.5 | E |
| Pursides Gold Mines, Ltd., Calgary..... | Gold mine exploration. | do..... | 7.9 | E |
| M. M. Builders Funds Ltd., Toronto..... | Construction lending. | Marine Midland..... | 55 | S _E |
| IMB Leasing, Ltd..... | Business credit..... | do..... | 75 | S _{SE} |
| Marmid Financial Services, Ltd., Toronto.... | Financial company..... | do..... | 99.98 | E |
| Indianhead Financial Services, Ltd., Windsor. | Leasing..... | The Detroit Bank & Trust Co. | 100 | E |
| *Trinity Managed Investments Ltd., Hamilton. | Holding company..... | Philadelphia National Bank. | 20 | E |
| *Hamilton Group Ltd., Hamilton..... | Leasing and textiles. | do..... | 1.2 | E |
| *Sunningdale Oils Ltd., Calgary..... | Oil..... | Wachovia Bank & Trust Co. | 1.5 | E |
| *Shorehaven Leasing of Canada, Montreal.... | Leasing..... | First New Haven National Bank & South Shore National Bank, Quincy, Mass. | 100 | E |
| *Metropolitan Trust Co., Toronto..... | Trust company..... | Manufacturers NB, Detroit. | 10 | E |
| *Guaranty Trust Co. of Canada, Toronto..... | do..... | National Bank of Detroit. | 10 | E |
| Canmort Securities Ltd., Toronto..... | do..... | do..... | 25 | E |
| Baldwin Piano Co (Canada) Ltd., Ontario.... | Retail trade..... | Central Bank & Trust, Denver. | 100 | BHC |
| J. P. Morgan of Canada Ltd..... | Credit agency..... | Morgan guaranty..... | 100 | S _E |
| North American Financial Company Ltd., Toronto. | Mortgage banker..... | Worcester County Bank | 100 | BHC |

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

| Name of country and overseas affiliate or subsidiary | Type of business | U.S. bank parent | Percent of ownership | Owned by— |
|---|------------------------------|--|----------------------|-----------|
| Canada—Continued | | | | |
| *Mercantile Bank of Canada, Montreal..... | Commercial bank..... | First National City Bank. | 38.7 | B |
| *Abitibi Asbestos Mining Co. Ltd., Montreal..... | Mining..... | do..... | 6.8 | E |
| *Andree Equiity Investment Fund Ltd., Toronto..... | Mutual fund..... | do..... | 100 | S&E |
| FNCB Capital Canada Ltd., Toronto..... | Investment company..... | do..... | | E |
| *Hamilton Group Ltd., Hamilton..... | Leasing business credit..... | do..... | *100 | S BHC |
| *Cable Utility Communication Ltd., Scarborough..... | Service company..... | do..... | *14.8 | S BHC |
| *Alphatext Systems Ltd., Ottawa..... | do..... | do..... | 9.6 | S E |
| *Citicorp Canada Ltd., Toronto..... | Leasing..... | do..... | *12 | S BHC |
| *Export Finance Corp. of Canada..... | Finance..... | do..... | 100 | S BHC |
| *International Trust Co., Montreal..... | Trust company..... | do..... | 1 | S B |
| Citicorp Venture Capital Canada, Ltd., Toronto..... | Investment company..... | do..... | 100 | S E |
| La Verendrye Management Corp. Quebec..... | Holding company..... | do..... | 100 | S BHC |
| Lynx-Canada Exploration Ltd., Toronto..... | Mining..... | do..... | 10.25 | S BHC |
| Venture Funding Corp Ltd., Alberta..... | Holding company..... | do..... | 2 | S BHC |
| Citicorp Financial Services Canada Ltd., Toronto..... | Real estate..... | do..... | 11.5 | S BHC |
| Citicorp Financial Services of Ontario, Toronto..... | Credit agency..... | do..... | 100 | E |
| I.N. Services Ltd., Ontario..... | do..... | Industrial National Bank, Rhode Island. | 100 | S E |
| International Appraisal Co. Inc., Toronto..... | Real estate agency..... | do..... | 100 | BHC |
| Continental Financial Corp., Montreal..... | Credit agency..... | do..... | 100 | S BHC |
| Industrial International Leasing Ltd., Ontario..... | do..... | do..... | 100 | S BHC |
| *Kingston Spinners Ltd..... | do..... | Chase Manhattan Bank. | 35 | S E |
| *Venus Mines Ltd. (NPL), Vancouver..... | Mining..... | do..... | 15.7 | S E |
| *Arcturus Investment & Development Ltd., Montreal..... | Finance..... | do..... | 100 | E |
| CMB Holdings Ltd., Toronto, Canada..... | Merchant banking..... | do..... | 100 | E |
| Britalta Drillings Ltd., Alberta..... | Nonbanking..... | Trust Co. of New Jersey. | 100 | BHC |
| Britalta Holdings Ltd., Alberta..... | do..... | do..... | 100 | BHC |
| Britalta Petroleum (Eastern) Ltd., Alberta..... | do..... | do..... | 100 | BHC |
| Britalta Venezoland Ltd., Alberta..... | do..... | do..... | 100 | BHC |
| Jaguar Petroleum Ltd., Alberta..... | do..... | do..... | 100 | BHC |
| W. Ishire Oil of Canada Ltd., Alberta..... | do..... | do..... | 100 | BHC |
| National Overseas Finance Corp., Montreal..... | Holding company..... | American National Bank & Trust. | 100 | S BHC |
| Heller-Natofin Ltd., Montreal..... | Business credit..... | do..... | 50 | S BHC |
| Abbey Finestone (Natofin) Ltd., Montreal..... | Insurance company..... | do..... | 50 | S BHC |
| Bisway Investments Co. Ltd., Montreal..... | Business credit..... | do..... | 50 | S S BHC |
| Fidelity Financial Service Ltd., Montreal..... | do..... | do..... | 50 | S S BHC |
| Heller-Natofin (Ontario) Ltd., Montreal..... | do..... | do..... | 100 | S S BHC |
| Heller-Natofin (Ottawa) Ltd., Montreal..... | do..... | do..... | 100 | S S BHC |
| Heller-Natofin (Western) Ltd., Montreal..... | do..... | do..... | 100 | S S BHC |
| M. C. Beber Ltd., Toronto..... | do..... | do..... | 50 | S S BHC |
| Mad Investments Ltd., Toronto..... | do..... | do..... | 100 | S S S BHC |
| Walter E. Heller Canada Ltd., Toronto..... | do..... | do..... | 100 | S BHC |
| Tri-State Acceptance Co. Ltd., Winnipeg..... | do..... | do..... | 100 | S BHC |
| Tri-State Finance Co. Ltd., Winnipeg..... | Personal credit..... | do..... | 100 | S BHC |
| Tri-State Investment Co. Ltd., Winnipeg..... | do..... | do..... | 100 | S S BHC |
| Canadian Acceptance Corp. Ltd., Toronto..... | Credit agency..... | National Bank of North America. | 100 | BHC |
| All-Steel Canada Ltd., Montreal..... | Manufacturing..... | do..... | 100 | S BHC |
| C.A.C. Realty Ltd., Toronto..... | Credit agency..... | do..... | 100 | S BHC |
| Canadian Acceptance Co., Toronto..... | do..... | do..... | 100 | S BHC |
| Johl's Contract Corp., Montreal..... | Manufacturing..... | do..... | 100 | S BHC |
| Service Leasing Corp. of Canada Ltd., Toronto..... | Business credit..... | do..... | 100 | S BHC |
| Gibson Greeting Cards Ltd., Toronto..... | Manufacturing..... | do..... | 100 | BHC |
| Canadian Acceptance Corp. Ltd., Toronto..... | Credit agency..... | do..... | 100 | BHC |
| Picker X-Ray Engineering Ltd., Montreal..... | Manufacturing..... | do..... | 100 | S BHC |
| Picker X-Ray Manufacturing Ltd., Bramalea..... | do..... | do..... | 100 | S BHC |
| Picker X-Ray of Canada Ltd., Montreal..... | Business credit..... | do..... | 100 | S BHC |
| Lake Simcoe Industries Ltd., Orillia..... | Manufacturing..... | Central Bank & Trust Co., Rockford, Ill. | 66.7 | BHC |
| Waterloo Metal Stampings Ltd., Ontario..... | do..... | Jefferson Trust & Savings, Peoria, Ill. | 100 | BHC |
| Drummondville Realities Inc., Drummondville..... | Real estate owners..... | Sterling National Bank & Trust, N.Y. | 100 | S BHC |
| Templeton Spinning Mills (Can) Ltd., Drummondville..... | Nonbanking..... | do..... | 100 | S BHC |

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

| Name of country and overseas affiliate or subsidiary | Type of business | U.S. bank parent | Percent of ownership | Owned by— |
|--|-------------------------------|---------------------------------------|----------------------|-----------|
| Cayman Islands: | | | | |
| *Caribbean Bank, Georgetown | Holding company | Continental Illinois | 40 | E |
| *Cayman International Trust Co., Grand Cayman Island. | Commercial bank | Bank of New York | 15 | E |
| *Central American Exchange Bank, Grand Cayman. | do. | Citizens and Southern National Bank. | 29.8 | B |
| do. | Development finance. | New England Merchants Bank. | 49 | E |
| do. | do. | do. | 20 | E |
| Euratlantis Maritime Bank, Ltd., Georgetown. | do. | Indiana N.B., Indianapolis. | 20 | |
| *Arwak Trust Co. (Cayman), Ltd., Grand Cayman. | Commercial bank | Marine Midland Bank, New York. | 11 | SE |
| *Wacayman Banking Corp., Ltd., Grand Cayman Reef. | do. | Wachovia Bank & Trust Co. | 100 | E |
| Cayman Reef Development Corp. Ltd., Georgetown. | Nonbanking | Wachovia National Bank. | 25 | SE |
| Standard & Chase Bank (C.I.) Ltd., St. Heller Jersey, C.I. | do. | do. | 43 | SE |
| Chase Manhattan Trust Cayman Ltd., Cayman Islands. | Banking and trust | do. | 100 | E |
| Euratlantis Maritime Bank Ltd., Georgetown. | Credit agency | Union Commerce Bank. | 20 | BHC |
| Bank of Virginia (Grand Cayman) Ltd., Georgetown. | Commercial bank | Bank of Virginia Co., Richmond. | 100 | E |
| Caribbean American Service Investment and Finance Co. Ltd. | Holding company | First National Bank of Boston. | 100 | E |
| First Pennsylvania Overseas Development Co. | do. | First Pennsylvania Bank. | 100 | E |
| The Latin American Bank, Georgetown | Commercial bank | American Fletcher NB&T, Indianapolis. | 33 | BHC |
| World Banking and Trust Corp. (Cayman) Ltd. | Miscellaneous banking. | Bank of America. | 100 | SE |
| Privaco Trust Company Ltd., Grand Cayman. | do. | do. | 100 | SSE |
| Cititrust (Cayman) Ltd., Grand Cayman | do. | First National City Bank. | 100 | B |
| First Pennsylvania International Ltd., Georgetown. | do. | First Pennsylvania Bank. | 100 | BHC |
| China: | | | | |
| *Shanghai Enterprise Ltd., Shanghai | NA | Security Pacific National Bank. | 16.6 | SSE |
| *Shanghai Savings and Investment Co., Ltd., Shanghai. | Investment company | do. | NA | SC |
| Chile: | | | | |
| *Financiera America Ltda., Santiago | Finance | Bank of America | 50 | E |
| *Empresa Minera de Mantos Blancos, S.A., Santiago. | Mining | Chemical Bank | 1.2 | SE |
| *Empresa Minera de Montes Blancos S.A., Santiago. | Metal refinery | Philadelphia National Bank. | 1.5 | E |
| Congo (Brazzaville): | | | | |
| *Societe Generale de Banque, Au Congo, Brazzaville. | Commercial Bank | Bankers Trust Co., New York. | 10 | E |
| *Banque Commerciale Congolaise, Brazzaville. | do. | Morgan Guaranty Trust Co. | 4.2 | E |
| Colombia: | | | | |
| *Corporacion Financiera Nacional, Medellin. | Finance | *Bankers Trust | 6.4 | SE |
| | | First National Bank of Boston. | 8.5 | E |
| *Banco del Comercio, Bogota | Commercial bank | Chase Manhattan Bank. | *30.3 | B |
| | | do. | *12.7 | E |
| Banco Central Hipotecario, Bogota | Government mortgage bank. | do. | 1.2 | SE |
| *Banco de la Republica, Bogota | Central banking | do. | 2 | SE |
| *Corporacion Financiera de Caldas, Manizoles. | Investment banking | do. | 6.3 | SE |
| *Corporacion Financiera del Norte (COFINORTE), Barranquilla. | do. | do. | 3 | SE |
| *Corporacion Financiera del Valle, California. | do. | do. | 4.8 | SE |
| *Acerias Paz Del Rio S.A., Sogomoso | Manufacturing (steel). | do. | .2 | SE |
| Banco de Comercio (Panama) S.A., Panama City. | Commercial bank | do. | 100 | SE |
| *Almacenes General De Deposito Mercantil "Almacenes", Bogota. | Warehousing | do. | 41.4 | SE |
| Corporacion Gran-Columbiana de Ahorro y Vivienda S.A., Bogota. | Savings and loan corporation. | do. | 30 | SE |
| Coro. de Ahorro y Vivienda del Vallecaali, Columbia. | do. | do. | 10 | SE |

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

| Name of country and overseas affiliate or subsidiary | Type of business | U.S. bank parent | Percent of ownership | Owned by— |
|---|-------------------------------|---|----------------------|------------------|
| Colombia—Continued | | | | |
| Banco de Caldas Manigales..... | Commercial bank.... | First National City Bank. | 20 20 | B E |
| Compania Exportadora Cit y export S.A., Bogota. | Miscellaneous banking. | do..... | 100 | E |
| *Inversiones Citycal S.A., Bogota..... | Premises company..... | do..... | 100 | S ^{BHC} |
| *Citycredito Ltda., Bogota..... | Finance..... | do..... | 75 | S ^E |
| *Compania Colombiana de Financiamientos (COLFIN), Bogota. | Consumer finance..... | do..... | 100 | E |
| *Corporacion Financiera de Occidente, Pereira. | Development finance..... | do..... | *13.7 *26.3 | B E |
| *Banco Nacional, Bogota..... | Commercial bank..... | First Pennsylvania Banking & Trust Company. | 10 | E |
| *Corporacion Financiera Colombiana, de Desarrollo S.A., Bcgota. | Development bank..... | do..... | 2.7 | E |
| *Corporacion Financiera Colombiana, S.A., Bogota. | do..... | Manufacturers Hanover. | 5.6 | E |
| *Industrias Alimenticias Noel, S.A., Medellin. | Manufacturing (food). | Northwestern Bank of Minneapolis. | .9 | E |
| *Compania Colombiana de Tejidos, S.A., Medellin. | Manufacturing (textiles). | Philadelphia National Bank. | .3 | S ^E |
| *Corporacion Financiera del Valle, California. | Investment banking | Continental Illinois..... | 10 | E |
| *Corporacion Financiera del Norte (COFINORTE), Barranquilla. | Finance..... | Marine Midland Bank, New York. | 20 | S ^E |
| *Corporacion Financiera del Norte (COFINORTE), Barranquilla. | do..... | Philadelphia National Bank. | 7.7 | E |
| *Banco de Occidente, California..... | Commercial banking. | Citizens & Southern National Bank. | 9.9 | E |
| *Corporacion Financiera del Valle, California. | Investment banking. | do..... | 4.8 | E |
| *Corporacion Financiera Colombiana de Desarrollo Industrial, Bogota. | Finance..... | Citizens & Southern..... | .2 | E |
| *Gas Natural Colombiano S.A., Barranquilla. | Gas distributor..... | Chemical Bank..... | 5.6 | E |
| *Corporacion Financiera de Caldas, Manizoles. | Development finance. | Fidelity Bank..... | 3 | F |
| *Do..... | Finance..... | Manufacturers National Bank, Detroit. | 3 | E |
| *Do..... | do..... | Wells Fargo..... | 3.7 | S ^E |
| Costa Rica: | | | | |
| *Financiera de America S.A., San Jose..... | do..... | Bank of America..... | 51 | E |
| *Bank of America, S.A., San Jose..... | Commercial Bank..... | do..... | 100 | B |
| *Chase Manhattan Costa Rica, S.A., San Jose. | Finance..... | Chase Manhattan..... | 79.9 | E |
| Costa Rica Tennis Club, San Jose..... | Tennis club..... | do..... | | S ^E |
| *Textilera tres Rios S.A., San Jose..... | Manufacturing..... | do..... | 19.1 | E |
| *Costa Rican Farms S.A., San Jose..... | Agriculture (inactive). | do..... | 50 | E |
| | | | Preferred 100 | |
| *Intropica Inc., San Jose..... | Poultry..... | do..... | Warrants | E |
| *Desarolle Agrapecurario del Disquec S.A., San Jose. | Rice and cattle farm..... | do..... | (C) 12.5 | E |
| *Corporacion International de Boston, S.A., San Jose. | Financing and leasing. | First National Bank of Boston. | 51.7 | E |
| Latin American Bank, The, San Jose..... | Commercial bank..... | Fidelity Union Bank, Newark. | 15.9 | BHC |
| *First National City (Costa Rica), San Jose..... | Finance..... | First National City Bank. | 100 | E |
| *Danawaldeck S.A., San Jose..... | Agriculture..... | do..... | 5 | E |
| | | | *5 | S ^{BHC} |
| *Compania del Tranvia de Caricri S.A., San Jose. | do..... | do..... | 25 | E |
| *Compania Internacional De Banana S.A., Port Limon. | do..... | do..... | 26.8 | E |
| *Almacenadora S.A., San Jose..... | Warehouse investment company. | Marine Midland Bank, New York. | 22 | S ^E |
| *Crece S.A., San Jose..... | Finance..... | do..... | 20 | S ^E |
| Financiera del First Pennsylvania S.A., San Jose. | Credit agency..... | First Pennsylvania National Bank. | 51 | S ^E |
| *Corporacion Costarricense de Financiamiento Industria S.A. (COFISA), San Jose. | Finance..... | Society National Bank of Cleveland. | 4.4 | E |
| Finance Generales S.A., San Jose..... | Nonbanking..... | McCore State Bank, Texas. | 35 | BHC |
| Cuba: *Compania Antillana de Acero S.A..... | Steel..... | Chase Manhattan..... | 1.5 | S ^E |

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

| Name of country and overseas affiliate or subsidiary | Type of business | U.S. bank parent | Percent of ownership | Owned by— |
|---|---|--|----------------------|----------------------------------|
| Denmark: | | | | |
| Picker Audrex X-Ray A/S, Copenhagen..... | Manufacturing..... | National Bank of North America. | 100 | S _B HC |
| Nordisle Factoring A/S, Copenhagen..... | Business credit..... | American National Bank & Trust. | 10 | S _B HC |
| Dominican Republic: | | | | |
| *Agrindustrias Dominicanas S.A., Santo Domingo. | Finance..... | Bank of America..... | 11.6 | E |
| Corporacion Financiera Asociada S.A., Santo Domingo. | do..... | do..... | 20 | E |
| *Compania Financiera Dominicana S.A., Santo Domingo. | Industrial development. | Manufacturer Hanover Trust. | 2.5 | E |
| Banco Hipotecario, Santo Domingo..... | Mortgage banking... | Chase Manhattan Bank. | 4 | E |
| Ecuador: | | | | |
| Inverseones Financieros S.A., Quito..... | Credit agency..... | First National City Bank. | 100 | E |
| *Almacenera del Ecuador S.A., Guayaquil. | Warehousing facilities. | Bank of America..... | 18.3 | E |
| *Compania Financiera Ecuatoriana de Desarrollo S.A., Quito. | Private development bank. | Continental Illinois National Bank & Trust Co., Chicago. | 7.2 | E |
| *COFIEC S.A., Quito..... | Development finance company. | Fidelity Bank, Rosemont, Pa. | 3.1 | E |
| *Do..... | Investment and development finance company. | Wells Fargo Bank N.A., San Francisco, Calif. | 3.6 | S _E |
| *Ecuatoriana de Desarrollo S.A., Quito..... | Commercial banking. | Franklin National..... | .6 | S _E |
| *Banco de Guayaquil..... | do..... | Manufacturers Hanover. | .9 | E |
| *Do..... | do..... | Bank of America..... | *2.3 *.3 .6 | E S _E E |
| *Do..... | do..... | National Bank of North America. | *2.3 2 | E BHC |
| *Do..... | do..... | Continental, Illinois.... | 1 | E |
| *Do..... | do..... | Wells Fargo..... | 1.1 | E |
| *Do..... | do..... | Allied Bank International. | <1 | S _E |
| *Do..... | do..... | Marine Midland..... | .008 | E |
| *Do..... | do..... | Girard..... | <1 | E |
| *Do..... | do..... | Provident National..... | Option | E |
| *Do..... | do..... | Fidelity..... | .6 | E |
| *Do..... | do..... | Citizens and Southern. | 14 | S _E |
| El Salvador: **Financiera de Desarrollo e Inversion, San Salvador. | | | | |
| England: | | | | |
| Wabaco Trust (Jersey) Ltd., Jersey Channel Is. | Miscellaneous banking. | Bank of America..... | 100 | S _E |
| Bank of America (Jersey) Ltd., St. Helier.. | Credit agency..... | do..... | 100 | B |
| Alpine Holding Ltd., London..... | Manufacturing..... | do..... | 4 | S _B |
| Banam Naminees Ltd..... | Holding company..... | do..... | 100 | S _B |
| European Brazilian Bank, London..... | Commercial banking.... | do..... | 17.5 17.5 | S _B S _B |
| Multinational Properties Ltd..... | Real Estate..... | do..... | 22.5 | S _B |
| Iran International Overseas Bank, London.. | Merchant bank..... | do..... | 10 | S _B |
| Bank America—Williams Glyn Common Factors Ltd., London | Finance..... | do..... | 51 | E |
| Pentos Assets Ltd. (formerly Forty-Second Legibus Ltd.) London | Investment company..... | do..... | 10 | E |
| *Bank of America, Ltd. (London)..... | Merchant bank..... | Bank of America N.T. & S.A., San Francisco, Calif. | 75 50 | B E |
| *Bankers Trust International, Ltd., London. | do..... | Bankers Trust Co., New York. | 100 | S _S E |
| *Hestair, Ltd., London..... | Office and mechanical equipment. | do..... | 5.75 | S _S S _E |
| *Hurst & Mallinson, Ltd., Worsshire..... | Manufacturing (textiles). | do..... | 14.2 | S _S S _E |
| *Cook & Watts, Ltd., London..... | do..... | do..... | 1.5 | S _S S _E |
| *Dufay Bitumastic, London..... | Manufacturing (paint). | do..... | 5.5 | S _S S _E |
| *Metropole Industries, Ltd., London..... | Engineering services. | do..... | 5.1 | S _S S _E |
| *Brinfam, Ltd., Colchester..... | Manufacturing (boats). | do..... | 35 | S _S S _E |
| *Anglo Continental Investment & Finance Co., Ltd., London. | Investment and finance company. | do..... | NA | S _S S _E |

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

| Name of country and overseas affiliate or subsidiary | Type of business | U.S. bank parent | Percent of ownership | Owned by— |
|--|---|------------------------------|----------------------|-----------|
| England—Continued | | | | |
| *Carousel Parties Ltd. (Lingerie), Berkshire. | Sale of goods by party plan. | Bankers Trust Co., New York. | 25 | SSSE |
| *Muscial & Plastic Industries Ltd., London. | Manufacturing distribution (musical instruments). | do. | 21.2 | E |
| *Rodo Investment Trust, Ltd., London. | Investment company. | do. | 59.2 | SE |
| | | | 40.8 | SE |
| *Unitech Ltd., London. | Electric equipment manufacturing and distribution. | do. | 4.7 | E |
| **Bankers Trustee & Executor Co., Ltd., London. | Nominee. | do. | 100 | E |
| *GM Firth (Metals) Ltd. Bradford. | Steel manufacturers. | do. | 15 | E |
| | | | *8.8 | SSSE |
| *Howard & Wyndham Ltd., London. | Leisure and entertainment company. | do. | .7 | SSSE |
| *Lex Hotels (Heathrow) Ltd., London. | Property company. | do. | 4.3 | SSSE |
| *New Broad Street Properties, Ltd., London. | Retail trade. | do. | 100 | SSSE |
| *Rodocarchi Leasing Ltd., London. | Leasing company. | do. | 100 | SE |
| *Rodo Nominees Ltd., London. | Nominees corporation holding company. | do. | 100 | SSSE |
| *BTI Nominees Ltd., London. | Nominee company. | do. | 100 | SSSE |
| *Hevea (Burma) Co., London. | Imports (non-trading). | do. | 14 | SSSE |
| *Investors Planning Assoc. Ltd., Watford. | Life insurance broker. | do. | 19.4 | SSSE |
| *Kennetside Holdings Ltd., Berkshire. | Color matching company. | do. | 21 | SSSE |
| *Kinghurst Financial Trust Ltd., Sussex. | Finance company. | do. | 20.8 | SSSE |
| *Y. J. Lovell (Holding) Ltd., Gerrards Cross. | Construction company. | do. | Nominal | SSSE |
| *PW Mason Ltd., Ripley. | Engineering curl, and building contractors. | do. | 7.4 | SSSE |
| *Music Sales (UK) Ltd., London. | Music publisher. | do. | 5 | SSSE |
| *Rentaplay Ltd., Essex. | Manufacturers playground equipment and nursery operators. | do. | 25 | SSSE |
| *S.C.A. Freight, Ltd., London. | Shipping and forwarding agents. | do. | 33.3 | SSSE |
| *Rentaplay (Aquatlo), Ltd., Essex. | Sporting and leisure facility operators. | do. | 17.9 | SSSE |
| British Anzani, Ltd., Mainstone. | Nonbanking. | do. | 9.3 | SSSE |
| Brook Merchantile Trust, Ltd., Rotherham. | Credit agency. | do. | 14.3 | SSSE |
| Clan Hotels, Ltd., Glasgow. | Real estate. | do. | 20 | SSSE |
| Clansman Holdings, Ltd., Atonoway. | Manufacturing. | do. | 16.4 | SSSE |
| Countryside Properties, Ltd., London. | Real estate. | do. | .3 | SSSE |
| Court Line, Ltd., London. | Transportation. | do. | .5 | SSSE |
| Export Times (Cobb-Thornton), Ltd., London. | Services. | do. | 5 | SSSE |
| Grand Metropolitan Hotels, Ltd., London. | Holding company. | do. | | SSSE |
| Hume Holdings, Ltd., London. | Miscellaneous banking. | do. | | SSSE |
| Inn Films, London. | Credit agency. | do. | .7 | SSSE |
| J. E. Sanger Ltd., London. | Holding company. | do. | .3 | SSSE |
| Jessel Securities, Ltd., London. | Credit agency. | do. | .1 | SSSE |
| Joseph Peck Holdings, Ltd., Rotherham. | Holding company. | do. | 1.4 | SSSE |
| Northern Commercial Trust, Ltd., Manchester. | Merchant bank. | do. | | SSSE |
| Nottingham Construction Supplies Ltd., Nottingham. | Construction. | do. | | SSSE |
| Panvale Properties Ltd., Maidstone. | Real estate agency. | do. | 15 | SSSE |
| Sidney C. Brinks, Ltd., Sandy, Bedfordshire. | Agriculture. | do. | .8 | SSSE |
| Sound Diffusion, Ltd., Portslade. | Credit agency. | do. | .5 | SSSE |
| Triumph Investments Ltd., London. | Miscellaneous banking. | do. | .1 | SSSE |
| Yorkshire Discount Stores Ltd., Teeside. | Bank. | do. | 12.5 | SSSE |
| Ocean Bulkiers (U.K.) Ltd., London. | Transportation. | do. | 12 | SSSE |
| *Bank of New York (Nominees) Ltd., London. | | Bank of New York | 100 | E |

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

| Name of country and overseas affiliate or subsidiary | Type of business | U.S. bank parent | Percent of ownership | Owned by— |
|--|---|--|----------------------|-----------|
| England—Continued | | | | |
| Capital Trust Jersey Ltd., Jersey Channel Islands. | Investment company. | Chase Manhattan | | SSE |
| Standard and Chase Bank (C.I.) Nominees Ltd., Jersey, C.I. | Holding company | do | 100 | SSE |
| *Standard and Chartered Banking Group Ltd., London. | Commercial bank | do | 13 | BE |
| *International Investment Corp. for Yugoslavia, London. | Development bank | do | 3.7 | E |
| *Equipment Leasing Co., London | Lease equipment | do | *30 *12.9 | E SE |
| *Scottish Timber Products, Northumberland. | Chip board plant | do | 11.1 | E |
| *Sheerness Iron & Steel Co., Kent | Steel mill | do | 10.5 | E |
| *Orion Bank Ltd. | Merchant bank | Chase Manhattan Bank NA. | *20 | B |
| *Orion Termbank Ltd. | Medium-term credit institution. | do | 20 | E |
| *Orion Multinational Services, London | Research, development and marketing services. | do | 16.7 | E |
| Chase Manhattan Ltd., London | Banking and trust | do | 100 | E |
| Libra Bank Ltd., London | Merchant banking | do | 26.1 | E |
| Orion Leasing Holdings Ltd., London | Leasing company | do | 16.5 | SE |
| Brown Harriman & International Banks, Ltd., London. | | Pittsburgh, National Bank. | 10 | E |
| *London Multinational Bank, Ltd., London | Merchant bank consortium. | Chemical Bank, New York. | 30 | E |
| *Chemical Bank Trustees Co., Ltd. | Holding company | Chemical Bank | 100 | B |
| *Chembank Nominees Ltd., London | Custodian and nominee services. | do | 100 | E |
| Continental Eurasia Ltd., London | Services | Continental Illinois | 100 | BHC |
| Continental Illinois Ltd., London | Merchant bank | do | 100 | BHC |
| **H. & H. Factors Ltd., London | Factoring | Continental Illinois National Bank & Trust Co. | 10 | E |
| *Compass Finance (United Kingdom) Ltd., London. | Limited finance transactions. | First National Bank of Miami. | 100 | SEHC |
| Boston Trust & Savings Ltd., Herefordshire | Commercial bank | First National Bank of Boston. | 100 | SBHC |
| First National Boston Ltd., London | Merchant bank | do | 100 | SEHC |
| Old Colony Nominees Ltd., London | Holding company | do | 100 | B |
| **International Factors Ltd., London | Factoring | do | 25 | E |
| *Crocker Nominees Ltd., London | Nominee company | Crocker National Bank, San Francisco. | 100 | BHC |
| *United International Bank Ltd., London. | Merchant bank | do | 10 | E |
| Overseas Bankers Club (Premises) Ltd., London. | Real estate owner | Irving Trust Co., New York, N.Y. | .61 | SE |
| *International Commercial Bank Ltd., London. | Commercial bank | do | 22 | B |
| **Irving Trust Co. (Nominees) Ltd., London. | Nominee company facilitates securities transfers. | do | 100 | E |
| First Chicago Investments (United Kingdom) Ltd., London. | Holding company | First National Bank of Chicago. | 99 | SE |
| Avenue Close Ltd., London | Real estate | do | 1 | SSE |
| Bryant Holdings Ltd., Birmingham | do | do | 1.56 | SSE |
| Estates & Agencies Holdings Ltd., London | Holding company | do | 12.5 | SSE |
| Fairdale Textiles Ltd., London | Retail trade | do | 13.4 | SSE |
| Law Land & Co. Ltd., London | Real estate | do | .04 | SE |
| Lyles (S.) Ltd., London | Manufacturing | do | 1 | SE |
| Parkes Knoll Ltd., High Wycombe | do | do | .2 | SE |
| Procor Ore Ltd., London | Nonbanking | do | 75 | SE |
| Reliable Properties Ltd., London | Real estate | do | 2.1 | SE |
| Stoddard Holdings Ltd., Glasgow | Manufacturing | do | 5.3 | SE |
| First Chicago Fiduciary and Investment Services Corp., London. | NA | do | NA | BHC |
| First Chicago Asset Management Corp., London. | Miscellaneous banking. | do | 100 | SBHC |
| First Chicago Leasing (United Kingdom) Ltd., London. | Credit agency | do | 100 | SBHC |
| First Chicago Shipping Corp. No. 1, London | do | do | 100 | SBHC |
| First Chicago Shipping Corp. No. 2 | do | do | 100 | SBHC |
| First Chicago Shipping Corp. No. 3 | do | do | 100 | SBHC |
| First Chicago Shipping Corp. No. 4 | do | do | 100 | SBHC |
| First Chicago Shipping Corp. No. 5, London | do | do | 100 | SBHC |

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

| Name of country and overseas affiliate or subsidiary | Type of business | U.S. bank parent | Percent of ownership | Owned by— |
|--|---|--------------------------------------|----------------------|------------------|
| England—Continued | | | | |
| Commercial Bank of Wales..... | Commercial bank..... | First National Banks of Chicago. | 20 | S _E |
| First Chicago Holdings (United Kingdom) Ltd. | Credit agency..... | do..... | 1 | S _E |
| Stylo Shoes Ltd., London..... | Retail trade..... | do..... | 1.6 | S _{SE} |
| Tower Assets Ltd., London..... | Forestry..... | do..... | .2 | S _{SE} |
| United Kingdom and Overseas Investment Co. Ltd., London..... | Investment company..... | do..... | .2 | S _{SE} |
| William Hudson Group Ltd., London..... | Holding company..... | do..... | .5 | S _{SE} |
| Wilson (Connolly) Holdings Ltd., Northampton. | Real estate..... | do..... | 2.5 | S _{SE} |
| *First Chicago, Ltd., London..... | Merchant bank..... | First National Bank, Chicago, Ill. | 66.7 | E |
| *First Chicago Nominees Ltd., London..... | Nominee company..... | do..... | 100 | E |
| *First Chicago, Ltd., London..... | Merchant bank..... | do..... | 100 | E |
| First International Bancshares Ltd., London..... | do..... | First National Bank in Dallas. | 100 | BHC |
| London Interstate Bank, Ltd., London..... | Banking..... | First National Bank, Atlanta. | 16.1 | E |
| *Sterling Industrial Securities Ltd., London..... | Merchant bank..... | Franklin National Bank, New York. | 10 | E |
| Philadelphia International Co. Ltd., London..... | do..... | Philadelphia International Bank. | 100 | E |
| Jenshire Ltd., London..... | Holding company..... | do..... | 15 | E |
| First National City Bank (Channel Islands) Ltd., St. Helier. | Commercial bank..... | First National City Bank. | 100 | B |
| First National City Credit (N.I.) Ltd., Belfast. | Holding company..... | do..... | 50 | S _B |
| First National City Nominees (N.I.) Ltd., Belfast. | do..... | do..... | 50 | S _B |
| First National City Securities (N.I.) Ltd., Belfast. | do..... | do..... | 50 | S _B |
| Citicorp International Bank Ltd., London..... | Miscellaneous banking..... | do..... | 100 | BHC |
| Citicorp Venture Capital London, Ltd., London..... | Investment company..... | do..... | 100 | S _{BHC} |
| Stock and Trade Facilities Ltd., London..... | Credit agency..... | do..... | 100 | S _{SE} |
| York Campbell Credit Ltd., Lincoln..... | Personal credit..... | do..... | 5.26 | S _{SE} |
| Citibank Assurance Ltd., Lincoln..... | Insurance activity..... | do..... | 100 | S _E |
| Citibank Trust Nominee Ltd., Lincoln..... | Holding company..... | do..... | 100 | S _{SE} |
| Citibank Commercial Ltd., Lincoln..... | Nonbanking..... | do..... | 100 | S _E |
| Citibank Credit Ltd., Lincoln..... | Personal credit..... | do..... | 100 | S _E |
| Citibank Leasing Ltd., Lincoln..... | Business credit..... | do..... | 100 | S _E |
| Citibank Trust Co. Ltd., Lincoln..... | Credit agency..... | do..... | 100 | S _{SE} |
| Suparquest Ltd., London..... | Holding company..... | do..... | 25 | S _{BHC} |
| First National City Venture Capital Co. Ltd., London. | do..... | do..... | 50 | S _{BHC} |
| do..... | do..... | do..... | 50 | BHC |
| Citibank Financial Trust Ltd., U.K..... | Credit agency..... | do..... | 100 | E |
| Campbell Discount Co. Ltd., Lincoln..... | do..... | do..... | 100 | S _E |
| Avon Trust Ltd., The, Lincoln..... | Business credit..... | do..... | 100 | S _{SE} |
| Campbell of Lincoln Finance Ltd., Lincoln..... | Personal credit..... | do..... | 100 | S _{SE} |
| Lincolnshire General Finance Co. Ltd., Lincoln. | Credit agency..... | do..... | 100 | S _{SE} |
| *National City Nominees Ltd., London..... | Nominee and trustee..... | do..... | 50 | S _{BB} |
| *Datamart Ltd., London..... | Data preparation center..... | do..... | 100 | S _E |
| *Contract Computing Ltd., London..... | Financial data processing services..... | do..... | 100 | S _E |
| National City Financial Trust Ltd., London..... | Consumer finance..... | do..... | 100 | E |
| *N.C.B. Trust Co., London..... | Holding company..... | do..... | 65.7 | B |
| *National & Grindlays Bank Ltd., London..... | Commercial bank..... | do..... | 33.3 | S _B |
| *Computer Projects Ltd., London..... | Computer service bureau..... | do..... | 40 | E |
| *New York London Trustee Co., Ltd., London. | Trust and investment services..... | do..... | .1 | S _B |
| FIMS Ltd., London..... | Miscellaneous banking..... | National Bank of Detroit. | 99.9 | B |
| WAB Leasing Ltd., London..... | Business credit..... | do..... | 24 | S _B |
| Western American Eurodeal Ltd., London..... | Security and commodity broker..... | do..... | 100 | S _B |
| *Western American Bank (Europe) Ltd., London. | International merchant bank..... | National Bank of Detroit. | *22.5 | B |
| *Burton & Texas Commerce Bank Ltd..... | Merchant bank..... | Texas Commerce Bank NA, Houston Tex. | 35 | B |

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

| Name of country and overseas affiliate or subsidiary | Type of business | U.S. bank parent | Percent of ownership | Owned by— |
|---|------------------------------------|---|----------------------|---------------------|
| England—Continued | | | | |
| Portoken Nominees Ltd., London | Nonbanking | Texas Commerce Bank | 100 | S _B |
| Rothschild Intercontinental Bank Ltd., London | Commercial bank | National City Bank of Cleveland | 11.2 | BHC |
| First Maryland Ltd., London | Merchant bank | First National Bank of Maryland | 25 | B |
| *Arbuthnot Latham & Co., Ltd., London | do | Philadelphia National Bank | 9.4 | E |
| *Western Credit Holdings, Ltd., Plymouth | Consumer finance company | do | 24 | E |
| *Rothschild Intercontinental Bank Ltd., London | Merchant bank | Seattle-First National Bank, Seattle, Wash. | 11.6 | B |
| *Western American Bank (Europe) Ltd., London | International merchant bank | Security Pacific National Bank, Los Angeles | *12.0 8 | E S _B |
| *Western American Bank (Europe) Ltd., London | do | Wells Fargo Bank NA, San Francisco | 22.5 | E |
| *Wells Fargo, Ltd., London | Merchant bank | do | 100 | S _E |
| *Penn Investments (London) Ltd. | Investment company | Girard Trust Bank, Bala Lynwood, Pa. | 100 | E |
| *Penn Sharp, Ltd. | Tax consulting | Girard | 76 | S _E |
| Penn Computer Services Ltd., London | Services | Girard Trust Bank | 100 | S _E |
| *Anglo Continental Finance & Investment Co., Ltd., London | Merchant bank | Union Bank, Los Angeles, Calif. | 7.4 | E |
| Investico Overseas Holdings, Ltd. | do | do | 10 | E |
| *Atlantic International Bank, Ltd., London | International consortium bank | Manufacturers National Bank, Detroit, Mich. | 25 | B |
| *Commercial Export Credit Co., London | Investment financing | Manufacturers Hanover Trust Co. | 100 | E |
| *Manufacturers Hanover, Ltd., London | Merchant bank | do | 75 | E |
| *Manufacturers Hanover Executor & Trustee Co., Ltd., London | Trustee corporation | do | 100 | A |
| *Manufacturers Nominees, Ltd., London | Holding company | do | 100 | S _E |
| Anglo-Romanian Bank, Ltd., London | Banking | do | 20 | E |
| Iran Overseas Investment Bank, Ltd. | Development bank | do | 19 | E |
| Ocean Finance & Trust Corp., Ltd., Channel Islands | Commercial bank | do | 100 | E |
| Rolls Royce Motor Holdings, Ltd., Crewe | Manufacturing | do | 1.3 | S _E |
| Ocean Acceptance (London) Ltd. | Credit agency | do | 100 | S _E |
| Ocean Nominees (Guernsey) Ltd., St. Peter Pt., Guernsey Channel Islands | Holding companies | do | 100 | S _E |
| Hanover Nominees Ltd., London | do | do | 100 | B |
| Caternquest Ltd., London | Business credit | Marine Midland | --- | S _{SSE} |
| Flightchoice Ltd., London | do | do | 100 | S _{SSE} |
| Lambrecht Ltd., London | do | do | --- | S _{SSE} |
| Wordmoor Ltd., London | do | do | 100 | S _{SSE} |
| Corylus Investments, Ltd. | do | do | 100 | S _{SSE} |
| London and Western Trust Ltd. | Holding company | do | 5 | S _E |
| Origin Publishing Co. (Medical) Ltd. | Communication | do | 24 | S _{SSE} |
| *Marine Midland Bank New York (Nominees) Ltd., London | Nonimnee company | do | 100 | E |
| *International Marine Banking Co., Ltd. (INTERMARINE), London | Merchant bank | do | 99.6 | S _E |
| *Europension, Ltd., London | Pension services | The Northern Trust Co., Chicago, Ill. | 15 | E |
| *London Multinational Bank, Ltd., London | Merchant bank | do | 20 | B |
| *London Interstate Bank, Ltd., London | do | Maryland National Bank, Baltimore | 16.4 | B |
| Do | do | Indiana National Bank of Indianapolis | 16.1 | E |
| *Do | do | Mercantile Trust Co., St. Louis, Mo. | 16 | E |
| First Boston (Europe) Ltd., London | Miscellaneous banking | Mellon National Bank | 33.3 | BHC |
| H.F.C. Trust Ltd., London | Credit agency | Morgan Guaranty Trust | 24.9 | S _E |
| Morgan Grenfell Holdings Ltd., London | Holding company | do | 31.7 | S _E |
| North Sea Assets Ltd., London | Investment company | do | 1 | S _E |
| Morgan & Cie International, Ltd., London | Miscellaneous banking | do | 33.3 | S _E |
| Euro-Clear Clearance System Ltd., London | International securities clearance | do | 3.3 | E |
| Kimberly Oil Co., Ltd., London | Trustee company | do | 18 | E |

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

| Name of country and overseas affiliate or subsidiary | Type of business | U.S. bank parent | Percent of ownership | Owned by— |
|--|-------------------------------|--|----------------------|-----------|
| England—Continued | | | | |
| Unifinance (U.K.) Ltd. (England), London | NA | National Bank of North America | 50 | BHC |
| Hillcrest Engineering Ltd., Birmingham | Manufacturing | Jefferson Trust & Savings, Feoria | 50 | BHC |
| First Chicago Holdings (U.K.) Ltd., London | Credit agency | American National Bank & Trust | 1 | SSBHC |
| Wahco, Ltd., London | NA | do | 100 | SSBHC |
| H & H Factors Ltd., London | Business credit | do | 63 | SBHC |
| E. T. Barwick (Sales Account), Ltd., London | do | do | 59 | SSBHC |
| Keep Brothers (Trading Capital) Ltd., London | do | do | 100 | SSBHC |
| *UST London Ltd. | Investment management | U.S. Trust Co. | 100 | E |
| Lontrust Management Ltd., London | Miscellaneous banking | do | 100 | SE |
| Fiji: | | | | |
| Investors Pacific Ltd., Suva | Credit agency | Bank of Hawaii | 100 | BHC |
| Finland: | | | | |
| *Industrialization Fund for Finland, Helsinki | Development bank | Bank of America N.T. & S.A., San Francisco, Calif. | 1.3 | E |
| *Do | do | Chemical Bank, New York | .4 | E |
| *Do | do | Irving Trust | — | E |
| *Do | do | Manufacturers Hanover | .7 | E |
| *Do | do | Northwest Bancorporation, Minneapolis | 1.1 | E |
| *Do | do | Society National Bank, Cleveland | .5 | E |
| *Soumen Interactors Oy, Helsinki | Factoring Corporation | First National Bank of Boston | 10 | SE |
| France: | | | | |
| *Immobiliere France SA, Paris | | Bank of America | .2 | SE |
| *Societe Anonyme Immobiliere du 28 place Vendome, Paris | Real estate holding | do | 100 | E |
| Sofet-Sofidi, Paris | Financing company | do | 4.8 | E |
| Societe de Cooperation Industrielle Franco-Sovietique, Paris | East-West trades | do | 25 | E |
| Banque de la Societe Financiere Europeene, Paris | Finance | do | 6 | E |
| Compagnie Generale de Credit-Bail, Lille | Equipment leasing | do | 25 | E |
| Cie Financiere de Paris et des Pays-Bas, Paris | Credit agency | do | .2 | E |
| Banque Ameribas (Luxembourg), Paris | Commercial bank | do | 11 | BHC |
| *Syneurope European Information Systems, Paris | Holding company computers | do | 29 | B |
| *Societe de Gestions de Fonds de Placements, Paris | Miscellaneous banking | Bankers Trust | 12.1 | E |
| *Essor Gastion, Paris | Investment management | Chase Manhattan | 10 | E |
| *Union Financiere Pour le Developpement de l'Economie Aerielle (Unigrain), Paris | Export finance | do | 50 | E |
| Financiere D'Investissements Et De Construction Immobiliere, Paris | Real estate development | do | 1.4 | E |
| *Union Provinciale Immobiliere, S.A., Paris | Real estate | do | 100 | E |
| Sci Barraud Colonie, Paris | do | do | 94.6 | E |
| Sci Rives de L'Yeres, Yere | do | do | 4 | SE |
| Sci Foch Faisanderie, Paris | do | do | 15 | SE |
| Sci Reuilly Daumesnil, Paris | do | do | 5 | SE |
| Sci Belver Buttes Chaumont, Paris | do | do | 10 | SE |
| Sci Juvena Porte D'Orleans, Montrouge | do | do | 25 | SE |
| Sci Tour de Boverly, Paris | do | do | 25 | SE |
| Sci Centrada Toulouse, Toulouse | do | do | 20 | SE |
| Sci Hotel de Bordeville, Paris | do | do | 24 | SE |
| Sci Cite de Fleury, Paris | do | do | 20 | SE |
| Sci Rue Mathurin Moreau, Paris | do | do | 25 | SE |
| Sci Les Seracs, Paris | do | do | 25 | SE |
| Sci L'Amiral, Paris | do | do | 70 | SE |
| Sci Monte-Carlo Residence Palace, Monte Carlo | do | do | 15 | SE |
| Sci Hameau Du Belvedere, Francheville | do | do | 20 | SE |
| Sci Lutece 2000, Paris | do | do | 25 | SE |
| Sarl Serfuce, Nice | do | do | 5 | SE |
| SICOV Planner | Miscellaneous banking | do | 25 | SE |
| *S.I.D.U.S. S.A. En Liquidation (M. M. Bisschoff) | Petrol company in liquidation | do | 4 | SE |
| | | | 1.35 | SE |

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

| Name of country and overseas affiliate or subsidiary | Type of business | U.S. bank parent | Percent of ownership | Owned by— |
|---|--------------------------------------|---------------------------------------|----------------------|------------------|
| France—Continued | | | | |
| *Credit Commercial de France, Paris..... | Commercial bank..... | Continental Illinois..... | 4.1 | S _E |
| *Societe de Participations Industrielle du Sud-Est, Lyon..... | | Fidelity Bank..... | 100 | S _E |
| *Banque Europeene de Financement, Paris..... | Commercial bank..... | do..... | 100 | E |
| *Societe Francaise de Factoring, Paris..... | Factoring..... | First National Bank of Boston..... | 15 | S _E |
| Soffinova, Paris..... | Credit agency..... | do..... | 3.37 | S _{BHC} |
| *Societe de Construction et d'Exploitation aux Champs Elysees, Paris..... | Real estate..... | First National City Bank..... | *10.5 | S _A |
| **Societe Eysees Boetie, Paris..... | do..... | do..... | *89.1 | A |
| *Union Financiere de Paris, Paris..... | Finance and real estate..... | do..... | 99.8 | A |
| Societe Auxiliaire D'Equipements, Dijon..... | Credit agency..... | do..... | NA | S _E |
| Societe de Gestion et de Conseil en Organization, Dijon..... | Services..... | do..... | 88.9 | S _F |
| *Imofi S.A., Paris..... | Real estate..... | do..... | 34 | S _{SE} |
| *Sufirimo, Paris..... | do..... | do..... | NA | S _E |
| Citicorp Location (France) S.A., Paris..... | Business credit..... | do..... | NA | S _E |
| *Banque Internationale Pour l'Afrique Occidentale, Paris..... | Commercial bank..... | do..... | 100 | E |
| *Societe Internationale d'Etrietes et d'Investissements Immobiliers en France, S.A., Paris..... | A realty investment corporation..... | do..... | 49 | B |
| Societe de Credit Pour l'Acquisition et l'Amelioration des Immeubles, S.A..... | Credit agency..... | do..... | 12.5 | E |
| Societe Civile Immobiliere, Cirque-Champs Elysees, Paris..... | Holding company..... | do..... | 79.8 | S _E |
| Citioail S.A., Paris..... | Business credit..... | do..... | 98 | S _{SE} |
| *Banque Vernes et Commerciale de Paris, Paris..... | Commercial bank..... | Franklin National Bank, New York..... | 100 | E |
| *France Cartes S.A., Paris..... | Consumer credit card..... | Marine Midland Bank, New York..... | 10 | E |
| L'Union Internationale le Financement et de Participation..... | Credit agency..... | do..... | 10 | S _E |
| **Union Auxiliere de Financement S.A. (UNIMAR), Paris..... | Finance..... | do..... | 19.4 | S _E |
| *Banque de l'Union Europeene (BUE), Paris..... | Commercial and investment bank..... | do..... | **50 | S _E |
| *Morgan & Cie SA, Paris..... | Investment bank..... | Morgan Guaranty..... | **19.1 | S _E |
| *Cie General des Faux, Paris..... | Public service..... | do..... | 70 | E |
| *Laboratoires Chibret S.A., Clermont Ferrand..... | Pharmaceutical manufacturing..... | do..... | .5 | S _E |
| *Carrefour, Paris..... | Supermarket..... | do..... | 10 | E |
| *Banque de la Construction et des Travaux Publics, Paris..... | Bank..... | do..... | 15 | S _E |
| *General Morgan Leasing S.A..... | Leasing..... | do..... | .5 | S _E |
| *Morgan & Cie International S.A., Paris..... | Miscellaneous banking..... | do..... | 49.7 | S _E |
| *Epargne Interesement, Paris..... | Investment management company..... | do..... | 33.3 | S _E |
| Caisse de Gestion Mobiliere, Paris..... | Commercial bank..... | do..... | 23 | S _E |
| Guyenne & Gascogne, Bayonne..... | Retail trade..... | do..... | 10 | S _E |
| Maisons Phenix, Paris..... | Construction..... | do..... | .5 | S _E |
| Viniprix, Paris..... | Retail trade..... | do..... | .5 | S _E |
| Laboratoires Lederle-Novalis C/S, Oullines..... | Manufacture and sale of drugs..... | do..... | 10.9 | E |
| Bail Equipment, Paris..... | Leasing corporation..... | Provident National Bank..... | 2 | E |
| Unigraino, Paris..... | Wholesale trade..... | Manufacturers Hanover..... | 1.4 | S _B |
| Societe Immobiliere de la Place du Marche Sainte-Honore, Paris..... | Real estate..... | do..... | 100 | B |
| Manufacturers Hanover Banque Nordique, Paris..... | Commercial bank..... | do..... | 60 | B |
| Japon Investissements, Paris..... | Miscellaneous banking..... | do..... | 1 | S _B |
| Sie Immobiliere Pour L'Industrie & Le Commerce, Paris..... | Real estate..... | do..... | .7 | S _B |
| Sie Lyonnaise de Ventilation Industrielle, Lyon..... | Nonbanking..... | do..... | .01 | S _B |
| *Rivaud & Cie, Paris..... | Merchant bank..... | Northern Trust Co., Chicago..... | 5 | E |
| *Banque Worms et Cie S.A., Paris..... | "banque d'affaires"..... | Philadelphia National Bank..... | 7.5 | E |

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

| Name of country and overseas affiliate or subsidiary | Type of business | U.S. bank parent | Percent of ownership | Owned by— |
|---|---------------------------------------|---|----------------------|--------------------|
| France—Continued | | | | |
| Factofrance Heller S.A., Paris..... | Business credit..... | American National Bank & Trust..... | 5 | S _{BHC} |
| Societe Art Fonctionnel, SARL, Metz..... | Manufacturing..... | do..... | 95 | S _{SSBHC} |
| Richard A Ginovi France, S.A., Paris..... | do..... | do..... | 70 | S _{SSBHC} |
| E.L.S.A., Paris..... | do..... | do..... | 32.7 | S _{SSBHC} |
| Knoll International France S.A., Paris..... | do..... | do..... | 100 | S _{SSBHC} |
| *Banque Occidentale Pour l'industrie et le Commerce, Paris..... | Merchant bank..... | *Union Bank, Los Angeles, Calif. *Central National Bank, Cleveland Ohio..... | 10 | E |
| Credinter, Paris..... | Miscellaneous banking..... | U.S. Trust Co..... | .76 | S _{SE} |
| *U.S.T., Paris..... | do..... | do..... | 100 | S _E |
| Sofinnova, Paris..... | Credit agency..... | Wells Fargo..... | 3 | S _E |
| Picker France, Malakoff..... | Manufacturing..... | National Bank of North America..... | 100 | S _{BHC} |
| Gabon: | | | | |
| *Union Gabonaise de Banque, Libreville..... | Commercial bank..... | Morgan Guaranty Trust Co..... | 15 | E |
| Germany: | | | | |
| **Bankhaus Centrale Credit A.G., Moench-Gladbach..... | do..... | Bank of America..... | 100 | E |
| *BT Holding GmbH, Frankfurt..... | Holding company..... | Bankers Trust..... | 100 | S _E |
| *Deutsche Unionbank, Frankfurt..... | Commercial bank..... | do..... | 42.6 | S _E |
| Optima Anlag und Beteiligungs-gesellschaft, GmbH, Munich..... | Nonbanking..... | do..... | 25 | S _{SE} |
| Privatdiskont Ag, Frankfurt..... | do..... | do..... | 5.9 | S _{SE} |
| Star Turhenwerhe GmbH, Andermach..... | Miscellaneous banking..... | do..... | .4 | SS _E |
| Vereinigung fur Betriebswirtschaft..... | Manufacture..... | do..... | .3 | SS _E |
| Beteiligungsgesellschaft fur Industrie, Haudiede Handel und Verhehe GMB, Hamburg..... | Miscellaneous banking..... | do..... | 4.2 | SS _E |
| Deutsche Gesellschaft fur Wertpapiersparen GmbH, Frankfurt..... | Security and commodity broker..... | do..... | 4 | SSE |
| I. N. Eberle & Cie, GmbH, Augsburg..... | Investment company..... | do..... | 1.7 | SSE |
| Lombordkasse AG., Frankfurt..... | Manufacturing..... | do..... | 100 | SSE |
| Datensystem Beteiligungsgesellschaft m.b.h., Frankfurt..... | Bank..... | Morgan Guaranty..... | 100 | E |
| Bankhaus Koch, Loutersen & Co., Frankfurt..... | Holding company..... | do..... | NA | BHC |
| Bayer Aktiengesellschaft, Leverkusen, Leverkusen..... | Commercial bank..... | First Wisconsin..... | .01 | S _B |
| Allgemeine Deutsche Credit, Austalt..... | Nonbanking..... | Manufacturers Hanover Trust..... | 25 | S _F |
| C. Bechstein. Pianofortefabrik GmbH, Berlin..... | Manufacturers..... | Wells Fargo..... | 73.6 | BHC |
| Picker Roentgen GmbH, Espelkamp..... | Manufacturing..... | Central Bank & Trust Co., Denver..... | 100 | S _{SEHC} |
| Picker International Operations FmbH, Auringin..... | do..... | National Bank of North America..... | 100 | S _{BHC} |
| Knoll International GmbH, Stuttgart..... | do..... | do..... | 100 | S _{BHC} |
| Heller Factoring Bank A.G., Mainz..... | do..... | American National Bank & Trust..... | 100 | S _{SSBHC} |
| *Citicorp Leasing Deutschland GmbH, Dusseldorf..... | Business credit..... | do..... | 100 | S _{BHC} |
| *Prodata International Datenverarbeitung, Frankfurt..... | Leasing data processing machines..... | First National City..... | 100 | S _{BHC} |
| GTB-Gesellschaft fur Transatlantische Beteilangen mbH, Dusseldorf..... | Computer services..... | do..... | 100 | S _{SSBHC} |
| Kundenkreditbank Kommandit Gesellschaft auf Actien, Dusseldorf..... | Commercial bank..... | do..... | 49.2 | B |
| Trinkaus und Burkhardt, Vermogen-Verwaltung ges. kg., Dusseldorf..... | do..... | do..... | 49.2 | S _B |
| Boston Leasing GmbH, Frankfurt..... | Holding company..... | do..... | 29.5 | S _B |
| *Inter-Factor Bank A.G., Mainz-Mombach..... | Insurance activity..... | do..... | 100 | S _E |
| *Marine Midland Overseas, GmbH..... | Factoring..... | do..... | 10 | S _E |
| C. G. Trinkaus & Burkhardt, Essen..... | Holding company..... | Marine Midland..... | 100 | S _E |
| *Deutsch Iberoamerikanische Entwicklung Aktiengesellschaft, Frankfurt..... | Bank..... | do..... | 5 | S _{SE} |
| *John Berenberg, Gossler & Co., Hamburg..... | Trade promotion and development..... | Philadelphia National Bank..... | 8.3 | S _E |
| Familienbank, A.G., Dusseldorf..... | Merchant banking..... | do..... | 10 | E |
| *State Street Bank G.m.b.H., Munich..... | Commercial bank..... | Chase Manhattan..... | 100 | B |
| | do..... | State Street Bqnk & Trust Co., Boston..... | 100 | E |

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

| Name of country and overseas affiliate or subsidiary | Type of business | U.S. bank parent | Percent of ownership | Owned by— |
|--|--|--|----------------------|-----------|
| Ghana: | | | | |
| *National Investment Bank, Accra..... | Development bank... | Morgan Guaranty Trust Co. | 19 | E |
| Greece: | | | | |
| *Investment Bank, Ltd., Athens..... | Commercial bank.... | Bank of America N.T. & S.A., San Francisco. | 20 | E |
| *Titan Cement Co., S.A., Athens..... | Cement manufacturer. | Fidelity Bank..... | .002 | E |
| | | First National Bank of Chicago. | .05 | E |
| *Polyetma Ltd., Athens..... | Polyester filament yarn manufacturer. | Fidelity Bank..... | (P)4 | S E |
| *National Investment Bank for Industrial Development S.A., Athens. | Development bank.... | Manufacturers Hanover Trust Co. | 2.8 | E |
| *Do..... | do..... | Chase Manhattan Bank NA. | 7 | E |
| **Commercial Credit Bank, Athens..... | Commercial bank.... | Manufacturers Hanover Trust, New York. | 18.7 | E |
| Guam: | | | | |
| *Guam Oil & Refining Co., Agana..... | Oil refining..... | Bankers Trust..... | 62.1 | E |
| Citicorp Credit, Tamuning..... | Credit agency..... | First National City Bank. | 90 | E |
| Guatemala: | | | | |
| *Servicios Comerciales e Industriales, S.A., Guatemala City. | Finance company.... | First National Bank of Boston. | 50 | E |
| Comercial Asegurado Suizo, Guatemala City. | Insurance..... | Pan American Bank of Miami. | 80 | S BHC |
| Comercial Afranzadora S.A., Guatemala City | do..... | do..... | 100 | S S BHC |
| Haiti: | | | | |
| Banque de L'Union Haitienne S.A., Port au Prince. | Commercial bank.... | Manufacturers Hanover. | 3.3 | E |
| Honduras: | | | | |
| *Cervceria Hondurera S.A., San Pedro, Sula. | Brewery..... | Chase Manhattan Bank. | 4.2 | |
| | | | *3.74 | S S E |
| | | | *.43 | S E |
| | | | 1.4 | S BHC E |
| *Compania Azucarera Chumbagua S.A., San Pedro Sula. | Sugar mill..... | do..... | 1.7 | S BHC E |
| *Compania Azucarera Choluteca S.A., Choluteca-Honduras. | do..... | do..... | 2 | S E |
| *CIA Azucarera Hondurera A.S., San Pedro Sula. | do..... | do..... | 10 | S BHC E |
| *Fomento E Inversiones S.A., de C.V.-Teguci-Galpa. | Investment company. | do..... | 3.75 | S E |
| *Molino Harinero Sula S.A., San Pedro Sula. | Flour mill..... | do..... | 99.7 | BHC E |
| Compania de Bienes Atlantida, S.A., Tegucigalpa. | Real estate..... | do..... | 79.95 | BHC E |
| *Compania de Almacenes S.A., Tegucigalpa. | General warehousing..... | do..... | 53.4 | E |
| *Inversiones Atlantida, Tegucigalpa..... | Holding company..... | do..... | 3 | E |
| *Empresa de Curtidas Centro Americana S.A., San Pedro, Sula. | Leather tannery..... | First Pennsylvania Bank. | 20 | E |
| *Almacenes Generales de Deposito S.A. (CALDESA), San Pedro Sula. | Warehousing company. | Bank of America N.T. & S.A., San Francisco, Calif. | 95.6 | BHC E |
| **Banco Atlantida, S.A., Tegucigalpa..... | Commercial bank.... | Chase Manhattan Bank. | 50 | E |
| *Compania de Credito S.A., San Pedro Sula. | Finance company..... | First National Bank of Boston. | 96.6 | B |
| **Banco de Honduras S.A., Tegucigalpa.... | Commercial bank.... | First National City Bank, New York. | | |
| Hong Kong: | | | | |
| *FNCB Financial Ltd., Hong Kong..... | Finance company.... | First National City Bank. | 100 | E |
| *Far East Bank Ltd., Hong Kong..... | Commercial bank.... | do..... | 76 | B |
| *International Data Systems Services Ltd., Hong Kong. | Computer services company. | do..... | 100 | S BHC |
| Asia Pacific Capital Corp., Hong Kong..... | Merchant bank..... | do..... | 70 | B |
| Duddell Finance Ltd., Hong Kong..... | Credit agency..... | do..... | 50 | S B |
| | | | 50 | S B |
| F.N.C.B. Nominees Ltd., Hong Kong..... | Holding company..... | do..... | 50 | S B |
| | | | 0 | S B |
| Bank of Canton, Hong Kong..... | Commercial bank.... | do..... | | |
| *Chase Manhattan (Hong Kong) Nominees, Ltd. | Nominee acting as agent for Chase Manhattan. | Chase Manhattan Bank. | 100 | E |
| Kam Yuan Choy Mo Ltd., Hong Kong..... | Merchant banking..... | do..... | 100 | E |
| Diamond Lease (Hong Kong) Ltd., Hong Kong. | Leasing company..... | do..... | 32 | S E |
| Orion Pacific Ltd., Hong Kong..... | Merchant bank..... | do..... | 20 | B |

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

| Name of country and overseas affiliate or subsidiary | Type of business | U.S. bank parent | Percent of ownership | Owned by— |
|---|------------------------------|---|----------------------|---------------------------------|
| Hong Kong—Continued | | | | |
| Bankok Financial Corp. (Hong Kong) Ltd., Hong Kong | Credit agency | Bank of Hawaii | 100 | BHC |
| Continental Illinois (Hong Kong) Ltd. | do | Continental Illinois | 100 | S ^B H ^C E |
| Western International Capital, Ltd., Hong Kong | do | First National Bank of Oregon | 30 | E |
| Do | do | Pacific National Bank of Washington | 20 | E |
| Wing Hang Bank Ltd., Hong Kong | Commercial bank | Irving Trust Co. | 51 | B |
| Associated Bankers Insurance Co. Ltd. | Insurance company | do | 4 | S ^B |
| Cni Hang Investment Co. Ltd., Hong Kong | Real estate agent | do | 10.9 | S ^B |
| Hing Wan Investment Co. Ltd. | do | do | 2.4 | S ^B |
| Merry Court Enterprises Ltd. | do | do | 7.5 | S ^B |
| Wing Hang (Nominee) Ltd. | Holding company | do | 100 | S ^B |
| Marmid Finance Ltd., Hong Kong | Credit agency | Marine Midland | 100 | S ^E |
| Heiler Factoring (Hong Kong) Ltd., Hong Kong | Business credit | American National Bank & Trust | 40 | S ^B H ^C |
| BA Finance (Hong Kong) Common, Ltd., Hong Kong | Finance | Bank of America | 100 | E |
| BA Leasing & Capital (Hong Kong), Ltd., Hong Kong | Leasing company | do | 75 | E |
| Asia & Euro-American Capital Corp., Ltd., Hong Kong | Merchant bank | do | 30 | E |
| Nortrust International Finance (Hong Kong), Ltd., Hong Kong | Representative office | Northern Trust Co., Chicago | 100 | E |
| NSD Financial, Ltd., Hong Kong | Finance | National Bank of Detroit | 56.2 | E |
| First Chicago Hong Kong, Ltd., Hong Kong | Finance and merchant banking | First National Bank of Chicago | 100 | E |
| Southern Pacific Properties, Ltd., Hong Kong | Real estate | Bankers Trust Co. | | S ^S S ^S E |
| B.T. Finance Co., Ltd., Hong Kong | Credit agency | do | 83.3 | E |
| Bantrus (Hong Kong), Ltd., Hong Kong | Miscellaneous banking | Bankers Trust | 100 | E |
| *Hong Kong & Shanghai Insurance Co., Ltd. | Insurance company | Security Pacific National Bank | 49.5 | S ^E |
| *Bank of Canton, Ltd., Hong Kong | Commercial bank | Security Pacific National Bank, Los Angeles, Calif. | 69 | E |
| Bank of Canton (Nominees) Ltd., Hong Kong | Bank | do | 100 | S ^S E |
| Canbank Finance Ltd., Hong Kong | Credit agency | do | 100 | S ^S E |
| Western International Capital Ltd., Hong Kong | | United California Bank | | E |
| *Shanghai Commercial Bank Ltd., Hong Kong | Commercial bank | Wells Fargo Bank NA, San Francisco, Calif. | 40 | S ^E |
| *WMS Capital Corp., Ltd., Hong Kong | Merchant bank | Wells Fargo | 40 | S ^S E |
| Italy: | | | | |
| *Cordelal Italiana S.p.A., Milan | Construction | Bank of America | 10 | S ^S E |
| *Patty S.p.A., Irosinone | Manufacturing (luggage) | do | 1.4 | S ^S E |
| *Rivalta Scrivia, S.p.A., Genoa | Transport | do | .3 | S ^E |
| *Banca d'America ed Italia, Milan | Commercial bank | do | 90.8 | E |
| *Banca per Finanziamenti a medio Termine S.p.A., Milan | do | do | 14.5 | S ^E |
| *Mediocredito Regionale Lombardo, Milan | do | do | .08 | S ^E |
| *Istituto Centrale di Banche e Banchieri S.p.A., Milan | do | do | 2 | S ^E |
| *Societa Finanziaria Centro Italia, "Central Finanziaria," Perugia | Finance | do | 15 | S ^E |
| Finanziaria Regionale Friuli-Venezia Giulia S.p.A., Trieste | do | do | .1 | S ^E |
| Manifatture Italiana Lane Affini S.p.A., Rome | Nonbanking | do | 1.3 | S ^E |
| De Laurentis Inter. Ma. Co. and Biada International, Rome | do | do | 5 | S ^S E |
| Consorzio Sovvenzioni su Valori Industriali, Rome | do | do | 1.3 | S ^E |
| F.I.N. Lombardiz Finanziaria Per lo Sviluppo Della Lombardia, Milan | Credit agency | do | 2 | S ^E |
| *Istituto Centrale di Banche e Banchieri, Rome | Financing to banks | Morgan Guaranty Trust | | T S ^E |
| *Banca Morgan, Vonwiller, Milan | Commercial bank | do | 51 | E |
| *Finanziaria Prealpina, Milan | Finance company | do | 100 | S ^S E |
| *Immobiliare Orelici S.p.A., Milan | Real estate | do | 98.3 | S ^E |
| Eibanco-Ente | Financing to banks | do | .2 | S ^E |
| *Finanziario Interbancario S.p.A., Rome | | | | |

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

| Name of country and overseas affiliate or subsidiary | Type of business | U.S. bank parent | Percent of ownership | Owned by— |
|--|---------------------------------|--|----------------------|-----------|
| Italy—Continued | | | | |
| *Bankers Trust Finanziaria, S.p.A., Rome... | Investment bank | Bankers Trust Co., N.Y. | * 95 | E |
| Bankers Trust Italia S.p.A., Rome | Miscellaneous banking. | do. | * 5 | SE |
| Istituto Per L'Edilizia Economica e Popolare, Milan. | Construction | Morgan Guaranty Trust. | 95 | SE |
| Medio credito Regionale Lombardo, Milan... | Credit agency | do. | 3. 2 | SSE |
| Trumobiliere la Prospera S.R.L., Milan | Real estate | do. | . 04 | SSE |
| Heller Factoring S.p.A., Ital Factor, Milan | Business credit | American National Bank & Trust. | 100 | SSE |
| Kiga S.p.A., Milan | Manufacturing | do. | 50 | SBBHC |
| Walter E. Heller Israel Ltd., Tel Aviv | Credit agency | do. | 100 | SBBHC |
| *International Factors Italia, S.p.A., Milan | Factoring | First National Bank of Boston. | 45 | SBC |
| Immobiliare, MAJA, S.R.I., Rome | Real estate owners | First National Bank of Chicago. | * 8 | S |
| Citicorp Finanziaria S.p.A., Milan | Credit agency | First National City Bank. | 100 | B |
| Societe Nazionale de Partecipazioni Finanziarie, Milan. | Holding company | do. | 100 | E |
| Representanza Marine Midland Bank—New York S.p.A., Rome. | Credit agency | Marine Midland Bank. | 28. 8 | E |
| *Sitalfin S.p.A., Milan | Finance company | Marine Midland Bank, N.Y. | 100 | E |
| India: | | | | |
| *Zuari Agro Chemicals Ltd., Goa | Fertilizer plant | Bank of America | 24. 9 | SSE |
| *Fort Gloster Industries, Ltd., Calcutta | Cable manufacture | Continental Illinois | 4. 4 | E |
| *Lakshmi Machine Works Ltd., Madras | Textile machinery company. | do. | 1. 1 | E |
| *Mahindra Ugrie Steel Co., Ltd., Khopoli | Steel company | do. | . 8 | E |
| *Zuari Agro Chemicals Ltd., Bombay | Fertilizer manufacturing. | First National Bank of Chicago. | . 6 | E |
| *Industrial Credit Investment Corp. of India, Ltd. (ICICI), Bombay. | Development bank | Bank of America | 1. 5 | E |
| *Do | do. | First National Bank of Boston. | 2. 5 | E |
| Picker X-Ray (India) Ltd., Calcutta | Manufacturing | National Bank of North America. | . 6 | E |
| *Industrial Credit Investment Corp. of India, Ltd. (ICICI), Bombay. | Development bank | Fidelity Bank, Rosemont, Pa. | 50 | SBBHC |
| *Do | do. | Bankers Trust | . 3 | E |
| *Do | do. | Northwestern of Minneapolis. | . 4 | E |
| *Do | do. | Union Bank | 1 | E |
| Indonesia: | | | | |
| First Indonesia Finance & Investment Corp., Jakarta. | Investment | Seattle-First National. | . 1 | E |
| PT Semen Chibinong, Djakarta | Cement industry | Chemical Bank | 3 | E |
| *P. T. Semon Chibinong, Djakarta | do. | Bank of America | 1. 1 | E |
| PT Mutual International Finance Corp., Djakarta. | | Crocker National Bank. | 5 | E |
| PT Finconesia Jakarta, Djakarta | Finance | Manufacturers Hanover. | 17 | E |
| P.T. Merchant Investment Corporation, Jakarta. | Investment bank | Morgan Guaranty | 17 | E |
| P.T. Interpacific Financial Corporation, Jakarta. | Financial institution | Continental Illinois | 36 | E |
| Indonesian Investments International (Indovest), Jakarta. | Merchant bank | First National Bank of Chicago. | 45 | E |
| P.T. First Indonesian Finance and Investment Corp., Djakarta. | do. | First City National Bank of Houston. | 35 | SSE |
| P.T. First Indonesian Finance and Investment Corp. (FICORINVEST), Jakarta. | do. | National City Bank of Cleveland. | 10 | E |
| Iran: | | | | |
| *Iran-California Co. Inc., Teheran | Agriculture farm | Bank of America | 2. 5 | E |
| *Sherkate Sahami Navard Luleh Ahwaz, Iran. | Rolling and pipe mills company. | do. | 2. 1 | SSE |
| **Foreign Trade Bank of Iran, Teheran | Commercial bank | Bank of America N.T. & S.A., San Francisco, Calif. | 16. 3 | E |
| *Industrial and Mining Development Bank of Iran, Teheran. | Development bank | Continental Illinois National Bank & Trust Co., Chicago. | . 5 | E |
| Bank Dariush, Tehran | Commercial bank | do. | 23 | E |
| *Industrial and Mining Development Bank of Iran, Teheran. | Development bank | Chase Manhattan Bank NA. | . 5 | E |
| International Agrobusiness Corporation of Iran. | Commercial farming | Chase Manhattan | 2. 1 | SSE |
| *Iranians' Bank, Teheran | Commercial bank | First National City Bank. | 15 | E |

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

| Name of country and overseas affiliate or subsidiary | Type of business | U.S. bank parent | Percent of ownership | Owned by— |
|--|--|---------------------------------------|----------------------|-------------------|
| Ireland: | | | | |
| *Avoca Mines Ltd., Co., Wicklaw..... | Copper mines..... | do..... | (P)100 | S _F |
| *Nuclear Data (Ireland) Co., Cork..... | Electronic equipment manufacturer..... | do..... | (P)100 | S _E |
| *Data Products (Dublin) Memories Ltd., Dublin..... | Computer components..... | do..... | (P)100 | S _E |
| Jacobson (Ireland) Ltd., Co., Cork..... | Nuts, screws etc. manufacturer..... | do..... | Pref. | S _E |
| Milchem Mineral Ltd., Co., Galway..... | do..... | do..... | Pref. | S _F |
| Wexford Creamery Ltd., Wexford..... | do..... | do..... | (P)100 | S _F |
| *Chase Ireland (Nominees) Ltd., Dublin..... | Holds customers securities..... | do..... | 100 | S _{SE} |
| First Chicago Nominees (Ireland) Ltd., Dublin..... | Nominee..... | First National Bank of Chicago..... | 100 | E |
| *Chase and Bank of Ireland (International) Ltd., Dublin..... | Commercial banking..... | Chase Manhattan Bank..... | 50 | E |
| Trinity Bank Ltd., Dublin..... | Merchant bank..... | Philadelphia National Bank..... | 20 | E |
| Wellman International Ltd., Mullagh..... | Textile manufacturer..... | do..... | 13.2 | E |
| First National City Bank Trustees (Ireland) Ltd., Dublin..... | Holding company..... | First National City Bank..... | 50 | S _B |
| First National City Financial Trust (Ireland) Ltd., Dublin..... | do..... | do..... | 50 | S _B |
| First National City Nominees (Ireland) Ltd., Dublin..... | do..... | do..... | 50 | S _B |
| First National City Securities (Ireland) Ltd., Dublin..... | do..... | do..... | 50 | S _B |
| First National City Trust (Ireland) Ltd., Dublin..... | do..... | do..... | 50 | S _B |
| Irish Intercontinental Bank Ltd..... | Merchant bank..... | Marine Midland..... | 32 | S _{SE} |
| Israel: | | | | |
| *International Factors (Israel) Ltd., Tel Aviv..... | Factoring..... | First National Bank of Boston..... | 10 | S _E |
| *Bank Leumi Investment Co., Ltd., Tel Aviv..... | Investment holding company..... | Fidelity Bank, Rosemont, Pa..... | .3 | E |
| Nominees Co. of Israel Insurance Bank Ltd., Tel Aviv..... | Bank..... | First Pennsylvania National Bank..... | 100 | S _{SBHC} |
| Trust Company of Israel Industrial Bank Ltd., Tel Aviv..... | do..... | do..... | 100 | S _{SBHC} |
| Miscellaneous Stock Investments, Tel Aviv..... | NA..... | do..... | NA | S _{SBHC} |
| Mortgage and Savings Bank Ltd., Tel Aviv..... | Mortgage bank..... | do..... | 50 | S _{SBHC} |
| On Insurance Agency Ltd., Tel Aviv..... | Insurance activity..... | do..... | 100 | S _{SBHC} |
| Finance Company of Israel Industrial Bank Ltd., Tel Aviv..... | Bank..... | do..... | 100 | S _{SBHC} |
| Company for Israel Ltd., Tel Aviv..... | do..... | do..... | NA | S _{SBHC} |
| Industrial Development Bank Ltd., Tel Aviv..... | Development bank..... | do..... | NA | S _{SBHC} |
| Industrial Compensation Fund with Israel Industrial Bank, Tel Aviv..... | Bank..... | do..... | 100 | S _{SBHC} |
| Israel Industries Insurance Agency, Tel Aviv..... | Insurance activity..... | do..... | 100 | S _{SBHC} |
| Keren Hashefah Central Provident Fund with Israel Industrial Bank Ltd..... | NA..... | do..... | do..... | S _{SBHC} |
| First International Bank of Israel Nominees, Ltd., Tel Aviv..... | Miscellaneous banking..... | do..... | 100 | S _{SBHC} |
| First International Bank of Israel Trust Co., Ltd., Tel Aviv..... | do..... | do..... | 100 | S _{SBHC} |
| Fortrab Investment Co., Ltd., Tel Aviv..... | do..... | do..... | 100 | S _{SBHC} |
| General Trust Co., Ltd., Tel Aviv..... | NA..... | do..... | 100 | S _{SBHC} |
| Miscellaneous Stock Investments, Tel Aviv..... | NA..... | do..... | NA | S _{SBHC} |
| Motobond, Ltd., Tel Aviv..... | NA..... | do..... | 100 | S _{SBHC} |
| Israel Industrial Bank, Tel Aviv..... | Bank..... | do..... | 100 | S _{SBHC} |
| FBI Holding Co. Ltd., Tel Aviv..... | Holding company..... | do..... | 38.7 | S _{MC} |
| First International Bank of Israel Ltd., Tel Aviv..... | Bank..... | do..... | 100 | S _{SBHC} |
| "Mayav" Mortgage & Savings Bank Ltd., Tel Aviv..... | Mortgage bank..... | do..... | 50 | S _{SBHC} |
| (A Real Estate Company) Tel Aviv..... | Real estate..... | do..... | 100 | S _{SBHC} |
| AFRIFOR Ltd., Tel Aviv..... | NA..... | do..... | 100 | S _{SBHC} |
| Pinkla Services Ltd., Tel Aviv..... | NA..... | do..... | 100 | S _{SBHC} |
| Export Bank Compensation Fund Ltd., Tel Aviv..... | NA..... | do..... | 100 | S _{SBHC} |
| Export Bank Nominees Ltd., Tel Aviv..... | Miscellaneous banking..... | do..... | 100 | S _{SBHC} |

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

| Name of country and overseas affiliate or subsidiary | Type of business | U.S. bank parent | Percent of ownership | Owned by— |
|---|-----------------------------|---|--------------------------|----------------------------|
| Ivory Coast: | | | | |
| *Banque Ivoirienne de Developpement Industriel, Abidjan. | Development bank | Chase Manhattan Bank | 8.9 | E |
| **Societe Ivoirienne de Banque, Abidjan | Commercial bank | Morgan Guaranty | 12 | E |
| **Societe Generale de Banques en Côte d'Ivoire Abidjan. | do | Bankers Trust | 13 | E |
| Jamaica: | | | | |
| *Life of Jamaica, Kingston | Insurance Company | Citizens & Southern | .7 | SE |
| | | do | *1 | E |
| *Pegasus Hotels of Jamaica, Ltd., Kingston | Hotel | do | .7 | E |
| *Jamaica Citizens Bank, Ltd., Kingston | Commercial bank | do | *18 *38.5 *3.6 | B E E |
| *First National Bank of Chicago (Jamaica) Ltd., Kingston. | do | First National Bank, Chicago, Ill. | 100 | B |
| *First Chicago Merchant Bank (Jamaica) Ltd., Kingston. | Merchant bank | do | 100 | SB |
| Mortgage Guaranty Insurance Corp. of Jamaica Ltd., Kingston. | Insurance | do | .7 | SSB |
| *First National Finance, Ltd., Jamaica, Kingston. | Finance company | First National City Bank, New York. | 75 | E |
| Caribbean Merchant Bank, Ltd., Kingston | Merchant bank | do | 100 | B |
| Walter E. Heller & Co. of Jamaica, Ltd., Kingston. | Credit agency | American National Bank & Trust Co. | 100 | SBHC |
| Chase Merchant Bankers Jamaica, Ltd., Kingston. | Merchant bank | Chase Manhattan Bank | 100 | E |
| Jamaican American Merchant Bankers, Ltd., Kingston | do | Bank of America | 100 | E |
| Japan: | | | | |
| *General Lease Co., Ltd., Osaka | Leasing company | do | *3 *7 7 *7 3 | E SSE SSE SE E |
| *Private Investment Co. for Asia (P.I.C.A.) S.A., Tokyo. | Investment and development. | do | .8 | E |
| *Do | do | Girard Trust Bank, Bala-Cymuyd. | .5 | E |
| *Do | do | Security Pacific National Bank. | .9 | E |
| *Do | do | Bank of California, San Francisco. | 1.2 | E |
| *Do | do | Wells Fargo | .8 | E |
| *Do | do | First National City Bank. | .8 | E |
| *Do | do | Northern Trust Co., Chicago. | .5 | E |
| *Do | do | Chase Manhattan Bank. | .8 | E |
| *Do | do | Chemical Bank, New York. | .8 | E |
| *Do | do | First Pennsylvania Banking & Trust, Philadelphia. | <1 | E |
| *Private Investment Co., for Asia (P.I.C.A.) S.A., Panama City. | do | First National Bank, Dallas, Tex. | .8 | E |
| *Private Investment Co., for Asia (P.I.C.A.) S.A., Tokyo. | do | Seattle-First National Bank Seattle, Wash. | .8 | E |
| *Do | do | Manufacturers Hanover, New York. | .8 | E |
| *Private Investment Co., for Asia (P.I.C.A.) S.A., Singapore. | do | First National Bank of Chicago. | .8 | E |
| Private Investment Co. for Asia S.A., Tokyo. | Investment company. | Bank of Hawaii | .1 | SBHC |
| Kita Nippon Shinyo Hanbai Co. Ltd., Kakkaido. | Finance | Chase Manhattan | 1 2.1 | E SE |
| Mitsubishi Chase Manhattan Consulting Co., Tokyo. | Miscellaneous banking. | do | 40 | SBHC |
| *Diamond Lease Co., Ltd. | Leasing company | do | 14.8 10 10 | BHC E E |
| *Pacific Lease Co., Ltd., Tokyo | do | First National Bank of Boston. | 10 | E |
| Orient Factors Ltd., Tokyo | Factoring company | do | 50 | SBHC |
| *Fuji National City Consulting, Ltd., Tokyo | Management consulting firm. | First National City Bank. | 50 | SBHC |
| *Fuyo General Lease Co., Ltd., Tokyo | Leasing company | do | 33.3 | SBHC |
| First National Nippon Shinpan Co. Ltd., Tokyo. | Credit agency | do | 40 | BHC |
| Central Greyhound Leasing and Finance Corp., Tokyo. | Leasing company | Continental Illinois | 10 | E |
| Sun Lease Co. Ltd., Tokyo | do | Union Bank, Los Angeles. | 10 | E |
| *Tokyo Lease Co., Ltd., Tokyo | do | Manufacturer Hanover | 10 | E |

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

| Name of country and overseas affiliate or subsidiary | Type of business | U.S. bank parent | Percent of ownership | Owned by— |
|---|--|---|----------------------|--------------------|
| Jordan: | | | | |
| *Industrial Development Bank, Amman..... | Development bank..... | Irving Trust..... | 2.2 | E |
| Central Lease Co., Ltd..... | Business credit..... | Marine Midland..... | 9.9 | S _B |
| Korea: | | | | |
| *Mah-in Industries Inc., Pusan..... | Tiles and bathroom accessories..... | Chase Manhattan Bank..... | 84.3 | E |
| *Korea Development Finance, Corp., Seoul..... | Industrial development finance company..... | United California Bank, Los Angeles, Calif..... | 2.5 | E |
| *Do..... | do..... | Bank of America..... | 3.5 | E |
| *Do..... | do..... | First National City Bank, New York..... | 3.5 | E |
| *Do..... | do..... | Irving Trust..... | 2.3 | E |
| Korea Investing Funding Corp., Seoul..... | Investment company..... | do..... | 5 | E |
| Kenya: | | | | |
| *African Ponderosa Ltd., Mombassa..... | Lodges..... | Chase Manhattan..... | 38.5 | E |
| Lebanon: | | | | |
| *Continental Development Bank S.A.L., Beirut..... | Commercial bank..... | Continental Illinois..... | 90 | E |
| *Lebanon Fruit Juice Co..... | Nonbanking..... | do..... | 1.41 | S _{SE} |
| *Lebanese Marble Co..... | do..... | do..... | 6.4 | S _{SE} |
| Finance Company of Investment, Beirut..... | Holding company..... | do..... | .5 | S _{SE} |
| National Co. of Guaranty Deposits..... | Insurance..... | do..... | .7 | S _{SE} |
| *Al Mashrek Bank, Beirut..... | Commercial bank..... | do..... | .09 | S _{SE} |
| *Banque du Credit Populaire S.A.L., Beirut..... | do..... | United California Bank, Los Angeles, Calif..... | 41.3 | E |
| *First National Bank of Chicago (Lebanon) S.A.L., Beirut..... | do..... | First National Bank, Chicago Ill..... | 100 | B |
| Banque Nationale pour le Developpement Industriel et Touristique Sal, Beirut..... | Credit agency..... | do..... | .8 | S _B |
| National Deposit Insurance Co. S.A.L., Beirut..... | Insurance..... | do..... | .7 | S _B |
| Bank Almashrek S.A.L., Beirut..... | Commercial bank..... | Morgan Guaranty..... | 40 | S _{SE} |
| National Bank for Industrial and Touristic Development, Beirut..... | Development bank..... | Chase Manhattan..... | 1 | E |
| Rabiya Bank S.A.L., Rabiya..... | Commercial bank..... | Chemical Bank..... | 40 | B |
| Rabiya Co. S.A.L., Rabiya..... | Holding company..... | do..... | .2 | B |
| Liberia: | | | | |
| International Ship Finance (Liberia) Inc..... | Business credit..... | Marine Midland..... | 100 | S _{SE} |
| CAM Shipping Inc., Monrovia..... | do..... | do..... | 100 | S _{SE} |
| *Liberia Hotels, Inc., Monrovia..... | Hotel..... | Chase Manhattan Bank..... | 18.9 | E |
| *Bank of Liberia, Monrovia..... | Commercial bank..... | Chemical Bank..... | 47.6 | S _{SE} |
| *Liberia Realty Corp., Monrovia..... | Real estate..... | do..... | 100 | S _{SE} |
| *Liberian Insurance Agency, Monrovia..... | Insurance broker..... | do..... | 65 | S _{SE} |
| Libmar One, Inc., Monrovia..... | Business credit..... | do..... | 100 | E |
| Libmar Two, Inc., Monrovia..... | do..... | do..... | 100 | E |
| Continental Aerolease No. 1, Inc., Monrovia..... | Credit agency..... | Continental, Illinois..... | 100 | S _{BHC} |
| Continental Aerolease No. 2, Inc., Monrovia..... | do..... | do..... | 100 | S _{BHC} |
| Continental Aerolease No. 3, Inc., Monrovia..... | do..... | do..... | 100 | S _{BHC} |
| Continental Aerolease No. 4, Inc., Monrovia..... | do..... | do..... | 100 | S _{BHC} |
| *Mid America International Development Association, Inc., Monrovia..... | Financial development..... | First National Bank of Chicago..... | 100 | E |
| *Citicorp Maritime-Lease (SKO) Inc., Monrovia..... | Special purpose general equipment leasing..... | First National City Bank, New York..... | 100 | S _{BHC} |
| *Bank of Monrovia, Monrovia..... | Commercial bank..... | First National City Bank..... | 100 | B |
| *Liberian Bank for Industrial Development & Investment, Monrovia..... | Banking..... | do..... | 12 | S _B |
| Liberian Enterprises..... | Investment company..... | do..... | .5 | S _B |
| Indoline Carriers Inc., Monrovia..... | Business credit institution..... | do..... | 100 | S _{BHC} |
| Iwerne Shipping Inc..... | Business credit..... | Marine Midland Bank..... | 100 | S _{SE} |
| Miranda Shipping Inc..... | do..... | do..... | 100 | S _{SE} |
| Liechtenstein: | | | | |
| Establissement Partfind, Vaduz..... | Holding company..... | First National City Bank..... | 100 | S _{SE} |
| Gavag A.G., Vaduz..... | do..... | American National Bank & Trust..... | 100 | S _{SSBHC} |
| Knoll International A.G.—Vaduz, Vaduz..... | do..... | do..... | 100 | S _{SSBHC} |
| Libya: | | | | |
| *Bank of North Africa, Tripoli..... | Commercial bank..... | Morgan Guaranty..... | 10 | E |
| Luxembourg: | | | | |
| *Ameribas Holding, S.A., Luxembourg..... | Finance and holding company..... | Bank of America N.T. & S.A..... | 50 | E |
| *Banque Ameribas, Luxembourg..... | Merchant bank..... | do..... | 11 | BHC |
| | | | 29 | B |
| | | | 20 | *S _B |

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

| Name of country and overseas affiliate or subsidiary | Type of business | U.S. bank parent | Percent of ownership | Owned by— |
|---|----------------------------------|--|----------------------|------------------|
| Luxembourg—Continued | | | | |
| Wobaco Holding Co., Luxembourg..... | Bank holding company. | Bank of America..... | 47.5 | E |
| *Bank of America—Luxembourg..... | Commercial bank.. | Bank of America N.Y. & S.A. | 100 | B |
| World Banking Corp..... | Bank..... | do..... | 100 | S _E |
| *Societe Financiere Europeene, Holding, Luxembourg. | Finance holding company. | do..... | 12.5 | E |
| Societe Financiere, Luxembourg..... | Credit agency..... | do..... | 100 | S _E |
| *CADIT, Compagnie Pour l'Administration d'Investment Trusts. | do..... | do..... | .2 | S _E |
| *FINABAI, Societe Financiere, S.A..... | do..... | do..... | 100 | S _E |
| Bank of Credit & Commerce International S.A., Luxembourg. | Commercial bank..... | do..... | 2.5 | E |
| International Nuclear Credit Corp., Luxembourg. | Finance nuclear energy projects. | do..... | 5 | S _E |
| Basic Resources International S.A., Luxembourg. | Nonbanking..... | do..... | 9.1 | E |
| Bank of Credit & Commerce International S.A., Luxembourg. | Commercial bank..... | do..... | 1.1 | S _{SE} |
| *Oriflane International S.A., Luxembourg. | Holding..... | Bankers Trust..... | 20 | B |
| *Centrae de Livraison de Valeurs Mobilieres (CEDEL), Luxembourg. | Eurobond clearing association. | Chase Manhattan Bank, N.A. | 9.2 | E |
| CEDEL S.A., Luxembourg..... | Miscellaneous banking. | National Bank of Detroit. | .8 | E |
| *Centrae de Livraison de Valeurs Mobilieres (CEDEL), Luxembourg. | Eurobond clearing association. | First National Bank of Boston. | 2.3 | S _B |
| *Do..... | do..... | Bank of America..... | 1.6 | E |
| *Do..... | do..... | First National City Bank. | .8 | S _E |
| *SIFIDA Investment Co., S.A., Luxembourg (Societe Int'l Financiere Pour les Invest. Et Le Developement En Afrique). | Investment and development. | Chemical Bank..... | NA | S _B |
| *SIFIDA Investment Co., S.A., Luxembourg and Geneva. | do..... | Marine Midland Bank, New York. | 1.8 | S _E |
| *Do..... | do..... | Northern Trust Co., Chicago, Ill. | 1.6 | E |
| *Do..... | do..... | Bank of America..... | 2 | S _E |
| *Do..... | Investment financing (Africa). | Franklin National..... | 1 | E |
| *Do..... | Investment and development. | Girard..... | .8 | E |
| *Societe International Financiere Pour le Investissements et de Developement en Afrique, Luxembourg. | Promote industrial development. | Manufacturers Hanover. | 1.1 | E |
| Capital International Fund, Notre Dame..... | Miscellaneous banking. | Chase Manhattan..... | 2 | E |
| Capital Italia International Advisory Co., S.A., Luxembourg. | Investment company..... | do..... | .43 | SS _E |
| Capital Italia, S.A., Notre Dame..... | Miscellaneous banking. | do..... | 100 | S _E |
| Capital International Advisory Co., S.A., Luxembourg. | Investment company..... | do..... | .5 | SS _E |
| Chase Manhattan, Luxembourg, S.A..... | Commercial bank..... | do..... | 100 | S _E |
| Interselex Common Stock, Luxembourg..... | Miscellaneous banking. | Continental Illinois..... | 18.75 | E |
| Interselex Capital Funds, Luxembourg..... | do..... | do..... | .01 | S _E |
| Interselex General Funds, Luxembourg..... | do..... | do..... | .01 | S _B |
| European Enterprises Development Co. of Luxembourg. | Investment company..... | do..... | 1.6 | E |
| *Continental International Finance, S.A., Luxembourg. | Holding company..... | Continental Illinois National Bank & Trust Co., Chicago. | 100 | E |
| *European Enterprises Development Co., S.A., Luxembourg. | Investment company. | Fidelity Bank, Rosemont, Pa. | 1.6 | E |
| *European Enterprises Development Co., S.A. | do..... | National Shawmut Bank. | 1.6 | E |
| *Bank of Boston S.A., Luxembourg..... | Merchant bank..... | First National Bank of Boston. | 100 | BHC |
| *Boston Overseas Holdings, S.A., Ltd..... | Holding company..... | do..... | 100 | E |
| *Compass Finance S.A., Luxembourg..... | Finance and holding company. | First National Bank of Miami, Fla. | 50 | BHC |
| *Do..... | do..... | Northwestern National Bank, Minneapolis, Minn. | 50 | BHC |
| Compass Bank..... | Bank..... | First National Bank of Miami. | 100 | S _{BHC} |

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

| Name of country and overseas affiliate or subsidiary | Type of business | U.S. bank parent | Percent of ownership | Owned by— |
|--|---------------------------------------|---|----------------------|-----------|
| Luxembourg—Continued | | | | |
| *First National City Bank (Luxembourg) S.A. | Commercial bank | First National City Bank, New York. | 100 | B |
| *Omicenter, S.A., Luxembourg | Manufacturer machinery and equipment. | do. | 4.9 | SE |
| *Securities Management Co., Luxenbourg, SEMACO S.A. | Securities and commodities broker. | do. | 26.2 | E |
| Citicorp International S.A., Luxembourg | Investment company | do. | 100 | BHC |
| U.S. Trust Investment Funds | Miscellaneous banking. | Manufacturers Hanover Trust. | .01 | SB |
| *Centrale de Livrism de Valeurs Mobilières S.A., Luxembourg. | Securities clearing-house. | Manufacturers Hanover. | .8 | SE |
| *International Investment Corp. for Yugoslavia, Luxembourg. | Investment company | Girard Trust | 2.1 | E |
| *Do | do | Philadelphia National Bank. | 2 | E |
| Concord International S.A., Luxembourg | International leasing | do. | 20 | E |
| *Marine Midland Investment Fund, S.A., Luxembourg. | Miscellaneous banking. | Marine Midland | 100 | SE |
| *Marinvest S.A., Luxembourg | Investment management. | do. | 100 | SE |
| *European Enterprises Development C/S Co. S.A., Luxembourg. | do. | Morgan Guaranty | *5.5 | E |
| Western American Bank (Luxembourg) S.A., Luxembourg-ville. | Merchant bank | National Bank of Detroit. | .5 | SE |
| Societe de Gestion de Euroblig, Luxembourg. | Miscellaneous banking. | U.S. Trust Co. | 100 | SB |
| **U.S. Trust International Advisory Co. S.A., Luxembourg. | do. | do. | 15 | SE |
| *Scientia Holdings S.A., Luxembourg | Development finance. | New England Merchants. | 11.9 | E |
| *ADELA Investment Co., S.A., Luxembourg | Investment and development Co. | National Shawmut Bank, Boston, Mass. | 3.3 | E |
| *Do | do | Manufacturers National Bank of Detroit. | .4 | E |
| *Do | do | National Bank of Detroit. | .4 | E |
| *Do | do | First Pennsylvania Banking & Trust Co. | .8 | E |
| *Do | do | Fidelity Bank, Rosemont, Pa. | <1 | E |
| *Do | do | Chemical Bank, New York. | 1.1 | E |
| Society for Worldwide Interbank Financial Communication, Luxembourg. | Telecommunications. | Chase Manhattan Bank. | .8 | E |
| *ADELA Investment Co. S.A., Luxembourg. | Investment and development. | Northwestern of Minneapolis, Minn. | T | E |
| *Do | do | Mellan Bank. | .2 | E |
| *Do | do | Irving Trust | .8 | E |
| *Do | do | Crocker National | .4 | E |
| *Do | do | First National City Bank. | .8 | E |
| *Do | do | Manufacturers Hanover. | 1 | E |
| *Do | do | Continental Illinois | .8 | E |
| *Do | do | Bank of America | 1.4 | E |
| *Do | do | Wells Fargo | *.5 | SE |
| *Do | do | do. | 11.9 | E |
| *Do | do | do. | .8 | SE |
| Macao: | | | | |
| Cambista Kuong Tong Ngun Hong, SARL | Bank | Security Pacific National Bank. | 100 | SE |
| Bank of Canton Ltd., Mocao | do. | do. | 100 | SE |
| Malaysia: | | | | |
| *Malaysian Industrial Development Finance Ltd., Kuala Lumpur. | Finance company | Bank of America | 1 | E |
| | | Bankers Trust | .7 | E |
| | | Morgan Guaranty | .7 | E |
| *Malaysian International Merchant Bankers Berhad, Kuala Lumpur. | Merchant bank | Continental Illinois | 24.5 | E |
| *Southeast Asia Development Corp. Ltd., Kuala Lumpur. | Investment banking | Manufacturers Hanover Trust. | .9 | E |
| *Malaysian Industrial Development Finance, Ltd., Kuala Lumpur. | Promote industrial development | do. | .7 | E |
| **Malaysian Industrial Finance Corp. (MIFC), Kuala Lumpur. | Finance company | Marine Midland | 15 | SE |

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

| Name of country and overseas affiliate or subsidiary | Type of business | U.S. bank parent | Percent of ownership | Owned by— |
|---|---|---|----------------------|-----------|
| Malaysia—Continued | | | | |
| Asian and Euro-American Merchant Bankers (Malaysia) Berhad, Kuala Lumpur. | Merchant Bank | Bank of America | 22.5 | |
| Citicorp Financial Ltd., Singapore | Credit agency | First National City Bank | 100 | E |
| *Malayawata Steel, Ltd., Prai | Iron and steel production. | Philadelphia National Bank | .3 | E |
| Credit Guarantee Corp., Malaysia; Berhad, Kuala Lumpur. | Guarantee company | Chase Manhattan | .2 | E |
| Martinique: | | | | |
| *Societe Antillaise de Product Chimique (SAPROCHM), Fort de France. | Fertilizer manufacturer. | do | (A)10.1 (B)79.9 | E E |
| Mauritania: | | | | |
| *Societe Miniere de Mauritanie S.A., Nouakchott. | Copper mining | Bank of America | .4 | E |
| *Societe Miniere de Mauritanie, Akjoujt | Copper refining | Philadelphia National Bank | .4 | E |
| Mexico: | | | | |
| *Arrendadora Comermex S.A. de CV, Mexico City. | Equipment leasing firm. | Bank of America | 44 | E |
| Industrias Polifil S.A., Mexico | Texturized polypropylene yarn. | do | 10 | E |
| **Corporacion Financiera S.A., Mexico City | | do | 20 | E |
| Campos Hermanos S.A., Tlalnepanlla | | State Street Bank & Trust Co. | .9 | E |
| Campos Hermanos, Tlalnepanlla | Manufacturing | Bank of America | .8 | SSE |
| Campos Hermonos S.A. | Wholesale trade | Chemical Bank | .7 | SE |
| Campos Hermanos, Tlalnepanlla | Manufacturing | First Pennsylvania National Bank. | 1 | SE |
| Do | do | United California Bank. | | E |
| Do | do | Harris Bank | .01 | E |
| Do | do | Philadelphia National Bank. | .01 | SE |
| Fabricantes Tecnicas, Mexico City | do | Central Bank & Trust, Denver. | 100 | BHC |
| Inmobiliare Tecnica S.A., Mexico City | Real estate owner-operator. | do | 100 | BHC |
| Picker Rayos X-Mexicana S.A. de C.V., Mexico City. | Services | National Bank of North America. | 100 | SBHC |
| Tornillos Especiales of Mexico S.A., Naucalpan de Juarez. | Manufacturing | Jefferson Trust & Savings, Peoria, Ill. | 100 | BHC |
| Telefonos de Mexico S.A., Mexico City | Communication | do | 1 | SBHC |
| Inmobiliaria Elda S.A., Veracruz | Real estate owner | Nevada National Bank. | 100 | BHC |
| Thomson Vera Cruz S.A., Veracruz | Manufacturing | do | 100 | BHC |
| Walter E. Heller de Mexico S.A., Mexico City. | Business credit | American National Bank & Trust. | 100 | SBHC |
| *Polisae S.A., Guadaliara | Bag manufacturer | Chase Manhattan Bank. | Options | E |
| *Hogares Regionmontanas S.A., de CV Monterrey. | Land development | do | 25 | SE |
| *Productora de Articulos de Celulosas Keyes S.A. de C.V. Jiutepee. | Molded pulp products. | Chemical Bank | 32.8 | E |
| *Arrendadora Internacional, Mexico City | Leasing company | First National Bank of Boston. | 40 | E |
| *Arrendadora e Inversionista Latina S.A. de C.V., Mexico City. | Commercial trade and leasing company. | First National Bank of Chicago. | 100 | E |
| *Asesores de Finanzas SA de C.V., Mexico City. | Management consulting and holding. | First National City Bank, New York. | 100 | E |
| *Cresap, McCormick & Paget de Mexico, S.A. | Consulting | do | 100 | SBHC |
| *Arrendadora Banamex Sade C.V., Mexico City. | Lease financing, conditional sales, agreement and bridge financing. | do | (A)40 (B)40 | SBHC |
| *Arrendadora Finac, S.A. de C.V., Mexico City. | Lease financing | do | 97 | SBHC |
| *Financiera Banamex S.A., Mexico City | Investment bank and financial consulting firm. | Morgan Guaranty Trust. | 5.2 | E |
| *Fomento de Inversiones, S.A. Mexico | Investment company. | Northwestern of Minneapolis. | 3.6 | E |
| *Industria del Hierro S.A., Mexico D.F. | Construction equipment. | Philadelphia National Bank. | .3 | E |
| *Prodelmex, Mexico City | Finance company | Provident National National Bank. | 67 | E |
| *Corporacion Interamericana S.A., Mexico City. | Investment company. | Wells Fargo Bank | 22 | SE |
| *Interamericana de Arrendamientos S.A., Mexico City. | Business credit | do | 23.8 | E |

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

| Name of country and overseas affiliate or subsidiary | Type of business | U.S. bank parent | Percent of ownership | Owned by— |
|--|------------------------------|---|------------------------|--------------|
| Morocco: | | | | |
| *Bank of America (Maroc) Casablanca..... | Commercial Bank.... | Bank of America..... | 100 | B |
| Societe Civile Immobiliere Bankamerica, Casablanca. | Owner/operator real estate. | do..... | 100 | SB |
| *Banque Marocaine du Commerce Exterieur, Casablanca. | Commercial Bank..... | do..... | *2.8 | E |
| | | Manufacturers Han-over Trust Co. | *.8 | E |
| *Banque Americano Franco-Suisse Pour le Maroc, Casablanca. | do..... | Continental Illinois, National Bank & Trust Co., Chicago. | 22 | E |
| *Societe Immobiliere Les Hesperides, S.A., Casablanca. | Real estate company.. | Continental Illinois..... | 33 | E |
| *First National City Bank (Maghreb), Casablanca. | Commercial bank.... | First National City Bank. | 100 | B |
| *Banque Nationale pour le Developpement Economique (BNDE), Rabat. | Development bank.... | Morgan Guaranty Trust Co. | 2.3 | E |
| Ranch Adaroeh, Rabat..... | Nonbanking..... | Kleberg First National Bank, Kingsville, Tex. | 100 | BHC |
| Monaco: | | | | |
| Europe No. 1, Monte Carlo..... | Communication..... | Morgan Guaranty..... | .5 | SE |
| Netherlands: | | | | |
| N.B.M. Heller Factoring N.V., Utrecht..... | Business credit..... | American National Bank & Trust. | 50 | SBHC |
| Amparis B.V., Amsterdam..... | Finance..... | Bank of America..... | 50 | |
| Holland Sea Search, The Hague..... | Mining..... | Bankers Trust..... | | SE |
| *Nederlandse Creditbank, N.V., Amsterdam. | Commercial bank..... | Chase Manhattan Bank N.A. | A31.6 B10.5 16.6 | E |
| *Multinational Orion Leasing Holdings N.V., Amsterdam. | Leasing company..... | Chase Manhattan..... | | SE |
| International Factors Nederland N.V., Rotterdam. | Factoring company.. | First National Bank of Boston. | 25 | SE |
| *N.V., Slavenberg's Bank, Rotterdam..... | Commercial bank..... | First National Bank, Chicago, Ill. | *1.1 *14.77 5.23 | E B SE |
| *Citicorp Leasing, Nederland, Amsterdam.. | General equipment leasing. | First National City Bank. | 100 | SBHC |
| *Financia Nederland N.V., The Hague..... | Finance company..... | do..... | 100 | SE |
| *Algemene Hollandse, Crediet in Deposito Bank, The Hague. | Bank..... | do..... | 100 | SE |
| Picker Nederland N.V., Utrecht..... | Services..... | National Bank of North America. | 100 | SBHC |
| Hambro International N.V., Amsterdam.... | Finance company..... | Wells Fargo Bank N.A., San Francisco. | 6 | E |
| Netherlands Antilles: | | | | |
| *Allied International N.V., Curacao..... | Investment company.. | Allied Bank International, New York. | 100 | E |
| Heller Financial Corp. N.V., Willemstead. | Business credit..... | American National Bank & Trust. | 100 | SBHC |
| First Chicago Overseas Finance N.V., Curacao. | Miscellaneous banking. | First National Bank of Chicago. | 100 | BHC |
| Citicorp International N.V., Amsterdam.... | Holding company..... | First National City Bank. | 100 | BHC |
| *INARCO Investment Co., N.V., Curacao..... | do..... | First National City Bank, New York. | 100 | E |
| Peruinvest International N.V., Curacao..... | | Franklin National..... | 1.1 | SE |
| First Empire Bank International N.V., Curacao. | Wholesale bank..... | Manufactures & Trodero Trust Co., Buffalo. | 100 | BHC |
| Interunion Antilles N.Y., Curacao..... | Credit agency..... | Marine Midland..... | 2.2 | SE |
| Standard Prudential N.V., Curacao..... | do..... | Sterling National Bank of New York. | 100 | BHC |
| New Caledonia: | | | | |
| *Banque De Paris et de Pays Bas Nouvelle, Caledonia, Noumea, Noumea. | Commercial bank.... | Bank of America..... | 30 | B |
| New Hebrides Trust Administration: | | | | |
| Pacific International Trust Co., Ltd..... | Corporate salaries.. | do..... | 20 | E |
| New Zealand: | | | | |
| *Flagship Pacific Holding, Ltd..... | Wellington building company. | Chase Manhattan Bank. | 24.5 | E |
| *Unit Shipping (NZ), Ltd., Auckland..... | Shipping..... | do..... | (P)20 (C)4 | E |
| *Broadbank Corp., Wellington..... | Merchant bank..... | Wells Fargo Bank N.A., San Francisco. | 12.5 | SE |
| New Zealand United Corp. Ltd., Wellington. | do..... | Bank of America..... | 20 | E |
| Bremner Intermarine (NZ) Ltd..... | do..... | Marine Midland..... | 20 | SE |
| First New Zealand International Ltd., Wellington. | do..... | Morgan Guaranty..... | 5 | SE |
| Marac Holdings Ltd., Auckland..... | Holding company..... | Security Pacific National Bank. | 20 | SE |

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

| Name of country and overseas affiliate or subsidiary | Type of business | U.S. bank parent | Percent of ownership | Owned by— |
|--|--|--|----------------------|----------------------------|
| Nicaragua: | | | | |
| *Atlantic Coast Chemical Co., S.A., Waspan... | Producer of pine resins pine oil, etc. | Bank of America..... | 14.2 | E |
| *Sacos Centroamericanos S.A., Diriamba.... | Producer of jute, kenaf bags, and cloth. |do..... | 16.9 | E |
| *Textiles Fabricato de Nicaragua, S.A., Managua. | Textile mill..... |do..... | 5.2 | E |
| *Corporación Nicaraguense de Inversiones, Managua. | Investment corporation. | Bank of America N.T. & S.A., San Francisco. | 9.5 | E |
| *Textiles Fabricato de Nicaragua, S.A., Managua. | Textile production... | Philadelphia National Bank. | 3.4 | E |
| *Banco Caley-Dagnall, S.A., Managua..... | Merchant bank..... |do..... | 17.5 | E |
| *Corporación Nicaraguense de Inversiones, Managua | Investment corporation. | United California Bank, Los Angeles. | 20.3 | E |
| *Banco de America, Managua..... | Commercial bank.... | Wells Fargo Bank, N.A. | 19.2 | S _E |
| *Financiera Industrial y Agropecuaria, Managua. | Finance company.... | Wells Fargo..... | 15 | S _E |
| *Corporación de Inversiones Diverses S.A., Managua. |do..... |do..... | 7.5 | S _E |
| Nigeria: | | | | |
| *Bank of America (Nigeria) Ltd., Lagos.... | Commercial bank.... | Bank of America N.T. & S.A., San Francisco. | 100 | B |
| Nigerian Industrial Development Bank Lagos. | Development bank... | Bank of America..... | 3.2 | E |
| *United Bank for Africa, Ltd., Lagos..... | Commercial bank.... | Bankers Trust Co., New York. | 4.7 | E |
| *Cross River Mills Ltd., Lagos..... | Lumber..... | Chase Manhattan Bank. | 3.3 | S _E |
| *Calabar Veneer Plywood Ltd., Lagos..... | Lumber company.... |do..... | 3.3 | S _E |
| *Nigerian Textile Mills, Ikeja..... | Textile mill..... |do..... | 26 | E |
| *Nigerian Industrial Development Bank, Lagos. | Development bank.... |do..... | 8.04 | E |
| *Do..... |do..... | Chemical Bank, New York. | (P)2.5 | E |
| *Do..... |do..... | Northwestern of Minneapolis. | (C).6 | E |
| *Do..... |do..... | Irving Trust..... | 1.9 | E |
| Norway: | | | | |
| Norsk Hydro, Oslo Norway..... | Nonbanking..... | Manufacturers Hanover Trust. | NA | S _B |
| Oman, Sultanate of: | | | | |
| National Bank of Oman Matinh..... | Commercial bank.... | Bank of America..... | 20 | B |
| Pakistan: | | | | |
| *Pakistan Industrial Credit & Investment Corp., Karachi. | Private development bank. |do..... | 3.6 | E |
| *Do..... |do..... | Continental Illinois National Bank & Trust Co. | 2.5 | E |
| *Do..... |do..... | Morgan Guaranty Trust Co., New York. | .83 | E |
| *Do..... |do..... | Irving Trust..... | 1.7 | E |
| Panama: | | | | |
| *Latin Mutual Investment Inc., R.D..... | | Bank of America..... | 16.7 | S _{S_E} |
| *San Faustin S.A..... | |do..... | .7 | S _{S_E} |
| *Financiera Bamerical S.A., Panama..... | |do..... | 100 | E |
| *Latin American Agribusiness Development Corp. (LAAD), Panama City | Finance company.... | Bank of America N.T. & S.A., San Francisco. | 7 | E |
| *Desarrollo Industrial S.A., Panama City... | Development bank finance corp. |do..... | 2.5 | E |
| *Do..... | Development bank.... | Chase Manhattan Bank. | 5 | E |
| Club de Golf, Playa Coronado, Panama City. | Country club..... |do..... | | S _{S_B} |
| *Manufacturera Latino Americano S.A. Panama. | Holding company.... |do..... | 25 | S _B |
| *Compañia Almacendora Interamericana, S.A., Colon. | Warehousing..... |do..... | 43.3 | S _B |
| Latin American Agrobusiness Development Corp. | Farming..... |do..... | 7.7 | S _B |
| *Aircraft Leasing Company, S.A., Panama City. | Leasing of aircraft... | First National City Bank. | 100 | E |
| Union de Bancos S.A. (Unibank), Panama City. | Commercial bank.... | First National Bank of Louisville. | 10.5 | B |
| Latin American Agrobusiness Development Corp. S.A., Panama City. | Miscellaneous banking. | First National Bank of Miami. | 13 | E |

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

| Name of country and overseas affiliate or subsidiary | Type of business | U.S. bank parent | Percent of ownership | Owned by— |
|--|----------------------------------|---|----------------------|-----------------------|
| Panama—Continued | | | | |
| *Private Invest. Co. for Asia..... | Investment company. | First National Bank in Dallas. | .8 | E |
| *Private Investment Company for Asia S.A., Panama City. | do..... | Continental Illinois | .8 | E |
| *Do..... | do..... | National Shawmut Bank. | ----- | E |
| *Financiera Intercomercial, S.A., Panama City. | Finance company..... | First National City Bank, New York. | 100 | E |
| *Financiera Centroamericana de Desarrollo, S.A. (FICENTRO), Panama City. | do..... | Marine Midland Bank, New York. | 22.4 | S _E |
| Avon Shipping, Inc., Panama City..... | Business credit..... | do..... | 100 | S _{SE} |
| *Servicios de Anuario Telefonico Internacional S.A., Panama City. | Produces telephone directories. | do..... | 12.7 | S _E |
| International Ship Finance (Panama), Inc. | Business credit..... | do..... | 12.7 | S _E |
| Delttec Panamerica S.A..... | Holding company, merchant bank. | Pittsburgh National Bank. | 1.7 | E |
| Union De Bancos, S.A., Panama..... | do..... | Mercantile Trust Co., St. Louis. | 11.1 | E |
| *Servicios De Anuario Telefonico Internacional, S.A., Panama City. | do..... | Northwestern National Bank, of Minneapolis. | 12.7 | E |
| Banco Internacional de Panama S.A..... | Commercial bank..... | Philadelphia National Bank. | 20 | E |
| Primer Banco de Aberris, Panama..... | Savings bank..... | do..... | 20 | E |
| *Dibeag Finance Corp., Panama..... | Finance and brokerage. | do..... | 8.3 | S _E |
| Security Pacific Bank (Panama) S.A., Panama. | Merchant bank..... | Security Pacific National Bank. | 100 | S _E |
| Security Pacific Interamerican Bank S.A., Panama. | do..... | do..... | 50 | S _E |
| *Forrente de Inversion S.A., Panama. | Holding company..... | Wachovia..... | 4 | E |
| Empresa Financieros Continental S.A., Panama. | do..... | Wells Fargo..... | 25 | S _E |
| Paraguay: | | | | |
| El Chaco S.A. Financiera, Asuncion..... | Credit agency..... | First National City Bank. | 100 | E |
| *Banco de Asuncion, Asuncion..... | Bank..... | Franklin National Bank, New York. | .3 | S _E |
| Papau and New Guinea: | | | | |
| *Bougainville Mining, Ltd., Panguna..... | Copper mining..... | Bank of America..... | *.6 *.24 | *E S _{SE} |
| Peru: | | | | |
| **Peruinvest-Compagnia de Formento e Inversiones, S.A., Lima..... | Development finance company. | Chase Manhattan Bank. | 7.4 | E |
| *Do..... | do..... | Morgan Guaranty Trust Co., New York. | 14.2 | E |
| Peru-invest International N.V., Lima..... | Finance company..... | Chase Manhattan..... | 15.3 | E |
| *Compania de Fomento e Inversiones, S.A., Lima. | do..... | Franklin National..... | .54 | S _E |
| *Compania de Cemento Pacasmayo S.A., Lima. | Cement manufacturers. | First Pennsylvania..... | 2.3 | E |
| *Inversiones Abancay S.A., Lima..... | Industrial development. | Manufacturers Hanover. | 7.8 | E |
| *Compania de Cemento Pacasmayo S.A., Lima. | Cement production. | Philadelphia National Bank. | 3.5 | E |
| Peru-invest International N.V., Caracao..... | Investment company. | Morgan Guaranty Trust Co. | 29.3 | E |
| Philippines: | | | | |
| *Industrial Finance Corp., Makati, Rizal..... | Finance company..... | Bank of America..... | 13.7 | E |
| *Do..... | do..... | Marine Midland Bank..... | 7.2 | E |
| *Do..... | do..... | Fidelity Bank..... | 1.9 | E |
| *Industrial Finance Corp., Manila, Rizal..... | do..... | Irving Trust..... | 7.2 | E |
| *Northern Industrial Finance, Corp. (NIFC), Manila. | Finance corporation..... | Bank of America..... | 20 | E |
| *Northern Industrial Finance, Corp., Manila. | do..... | Marine Midland Bank..... | 4.2 | E |
| *Private Development Corp. of the Philippines, Manila. | Development finance corporation. | Bank of America..... | 1.8 | E |
| *Do..... | do..... | Irving Trust..... | 4.8 | E |
| *Do..... | do..... | Wells Fargo Bank..... | 1 | E |
| *Do..... | do..... | Continental Illinois..... | 1.3 | E |
| *Do..... | do..... | First National Bank of Boston. | 1 | E |
| *Do..... | do..... | Chemical Bank of New York. | 1.8 | E |
| *Do..... | do..... | First National City Bank, New York. | 1.4 | E |
| *Do..... | do..... | Manufacturers Hanover Trust. | 1.8 | E |

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

| Name of country and overseas affiliate or subsidiary | Type of business | U.S. bank parent | Percent of ownership | Owned by— |
|---|-------------------------|--|----------------------|-----------|
| Philippines—Continued | | | | |
| Private Development Corp. of the Philippines, Makati. | Industrial development. | Bankers Trust, New York, N.Y. | 1 | E |
| *Philippine Appliance Corp., Rizal | Assembly of appliances. | Chase Manhattan | 6.1 | SE |
| *House of Investments Inc., Manila | Investment bank | Continental Illinois | 10 | E |
| *Do | do | Fidelity Bank | 4.1 | E |
| *FNCB Finance Inc., Manila | Finance company | First National City Bank, New York. | 75 | E |
| *Meralco Securities Corp., Manila | Holding company | Northwestern National Bank of Minneapolis. | .06 | E |
| *First Nationwide Credit Corp., Manila | Consumer financing | Philadelphia National Bank. | 2.3 | E |
| **CCP Securities Corp., Manila | Investment bank | Wells Fargo Bank | 10 | SE |
| **Do | do | First National City Bank, New York. | 20 | E |
| Filinvest Credit Corp., Manila | Finance company | Chase Manhattan | 30 | E |
| Philippine-American Investments Corp., Manila. | Merchant bank | do | 25 | E |
| Manila Electric Co. | Utility company | Northwest National Bank of Minneapolis. | .06 | E |
| Far East Bank & Trust Co., Manila | Commercial Banks | Chemical Banks | 12.5 | E |
| Asia European American Development Corp., Makati, Rizal. | | Crocker National | 6 | E |
| Manila Electric Co., Manila | Electric utility | Philadelphia National Bank. | .01 | E |
| Meralco Securities Corp., Pasig | Holding company | do | .01 | E |
| Rizal Commercial Banking Corp., Makati, Rizal. | Commercial bank | Continental Illinois | 30 | E |
| Citicorp Investment Corp., Makati, Rizal | Credit agency | First National City Bank. | 100 | E |
| Philippine Bank of Communications, Manila | Commercial bank | Irving Trust Co. | 30 | B |
| Helpep Industrial Factoring Co. of the Philippines, Manila. | Business credit | American National Bank and Trust. | 50 | SBHC |
| Portugal: | | | | |
| *International Factors (Portugal) Sarl, Lisbon. | Factoring | First National Bank of Boston. | 20 | SE |
| Walter E. Heller, Factoring Portuguese, Sarl, Lisbon. | Credit agency | American National Bank & Trust. | 25 | SBHC |
| Puerto Rico: | | | | |
| Housing Investment Corp., San Juan | Mortgages finance | Chase Manhattan Bank NA. | | |
| Overseas Realty Corp. of Puerto Rico, San Juan. | Real estate developers. | Chase Manhattan | 100 | B |
| *Enterprise Hotel Development Corp., Santurce. | Hotel | do | 2.9 | E |
| | | | *(P)7 | SE |
| | | | *(C)8.1 | SE |
| | | | *(C)4.8 | SE |
| Metro Finance Co., of Fajardo Inc., San Juan. | Personal credit | American National Bank & Trust. | 100 | SSBHC |
| Metro Finance Co., of Guayanilla Inc., San Juan. | do | do | 100 | SSBHC |
| Metro Finance Co., of Lajas Inc., San Juan | do | do | 100 | SSBHC |
| Metro Finance Co., of Puerto Nuevo Inc., San Juan. | do | do | 100 | SSBHC |
| Metro Finance Co. Inc., San Juan | do | do | 100 | SSBHC |
| Metro Finance Co. of Humacao Inc., San Juan. | do | do | 100 | SSBHC |
| Berens Mortgage Bankers Inc., San Juan | Mortgage bank | First Pennsylvania Bank, NA. | 100 | BHC |
| Commolo Co. Inc., Santurce | Credit agency | do | 100 | BHC |
| Pearl Finance Corp., San Juan | do | American National Bank & Trust. | 100 | SBHC |
| ABC Finance Corp., of San Juan, San Juan | Personal credit | do | 100 | SSBHC |
| Metro Finance Co. of Anasco Inc., San Juan | do | do | 100 | SSBHC |
| Metro Finance Co. of Aquadilla, Inc., San Juan. | do | do | 100 | SSBHC |
| Metro Finance Co. of Bayamon Inc., San Juan. | do | do | 100 | SSBHC |
| Bamerical Mortgage & Finance Co. Inc., Hato Rey. | Finance and mortgage. | Bank of America N.T. & S.A. | 100 | E |

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

| Name of country and overseas affiliate or subsidiary | Type of business | U.S. bank parent | Percent of ownership | Owned by— |
|---|---|--|----------------------|------------------|
| Puerto Rico—Continued | | | | |
| National City Financial Services, Inc., San Juan. | Credit agency..... | First National City Bank. | 100 | E |
| Prestamos Presto Canoyarao Inc., Loiza..... | do..... | do..... | 100 | E |
| Prestamos Presto Carolina Inc., Carolina..... | do..... | do..... | 100 | E |
| Prestamos Presto Dorado Inc., Dorado..... | do..... | do..... | 100 | E |
| Prestamos Presto Hato Rey, Inc.,..... | do..... | do..... | 100 | E |
| Prestamos Presto Lares Inc., De Lares..... | do..... | do..... | 50 | E |
| Prestamos Presto Noreste, Inc., Santurce..... | do..... | do..... | 100 | E |
| Mini Finance Co., Guaynabo..... | do..... | do..... | 100 | S _B |
| Prestamos Presto Ciales Inc..... | do..... | do..... | 100 | S _B |
| * Prestamos Presto de Puerto Rico, Carolina..... | Finance company..... | do..... | 100 | E |
| *Cosmopolitan Realty, Hato Rey..... | Bank premises..... | do..... | 100 | B |
| *Citicorp Leasing of Puerto Rico, Inc., San Juan. | Equipment leasing..... | do..... | 100 | S _{BHC} |
| Rwanda: | | | | |
| *Banque De Kigali, Kigali..... | Commercial bank..... | Morgan Guaranty Trust Co., N.Y. | 10 | E |
| Senegal: | | | | |
| *Societe General de Banques au Senegal, Dakar..... | do..... | Bankers Trust Co., N.Y. | 10 | E |
| *Builders International S.A., Dakar..... | Construction..... | Fidelity Bank..... | 4.2 | E |
| *Union Senegalaise de Banque, Dakar..... | Commercial bank..... | Morgan Guaranty..... | 3.8 | E |
| Singapore: | | | | |
| United Chase Merchant Banking Ltd., Singapore. | Merchant Bank..... | Chase Manhattan..... | 42.5 | E |
| *Development Bank of Singapore, Ltd., Singapore. | Development bank..... | Chase Manhattan Bank NA. | .5 | E |
| International Discount Co. Ltd., Singapore..... | Finance company..... | Chase Manhattan..... | 10 | E |
| *Chase Manhattan (Singapore) Nominees Private Ltd. Attorney Nominees. | Agent and trustees for Chase Manhattan Bank NA. | do..... | 100 | S _B |
| *Asia & EuroAmerican Merchant Bank Ltd., Singapore. | Merchant bank..... | Bank of America..... | 30 | E |
| *Singapore International Merchant Bankers Ltd., Singapore. | do..... | Continental Illinois National Bank & Trust Co. | 23.7 | E |
| Morgan Guaranty & Partners, Ltd., Singapore. | do..... | Morgan Guaranty Trust. | | E |
| National Discount Co., Ltd., Singapore..... | Discount house..... | do..... | 35 | E |
| First Chicago (Singapore) Nominees Pte., Ltd. | Nominee..... | First National Bank of Chicago. | 100 | E |
| Private Investment Co. for Asia S.A., Singapore. | Credit agency..... | do..... | .8 | S _B |
| *First Overseas Credit Ltd., Raffles Quay... | Finance company..... | First National City Bank, New York. | 40 | E |
| South Africa: | | | | |
| *International Factors (South Africa), Ltd., Johannesburg. | Factoring and leasing. | First National Bank of Boston. | 10 | S _B |
| *First National City Bank (South Africa), Ltd., Johannesburg. | Commercial bank..... | First National City Bank, New York. | 100 | B |
| Anglo Continental Investment & Finance Co., Johannesburg. | Holding company..... | Bankers Trust..... | | S _{BH} |
| *Citibank Nominees (pty), Ltd., Johannesburg. | Trustee, nominee, and agent. | First National City Bank. | 100 | S _B |
| *FNCB Services Corp. (South Africa), Ltd., Johannesburg. | Travel services..... | do..... | 100 | S _B |
| Die Beers Oro Kimberley..... | Mining..... | Manufacturers Hanover Trust. | NA | S _B |
| Pined (pty), Ltd., Johannesburg..... | NA..... | National Bank of North America. | 75 | S _{BHC} |
| Fordom Factoring, Ltd., Johannesburg..... | Business credit..... | American National Bank & Trust. | 50 | S _{BHC} |
| Spain: | | | | |
| Heller Factoring Espanola S.A., Barcelona..... | do..... | do..... | 50 | S _{BHC} |
| *Banco Commercial para America, Madrid..... | Commercial bank..... | Bank of America N.T. & S.A. | 50 | E |
| *Banco Intercontinental Espanol, Madrid..... | do..... | do..... | 27.5 | E |
| Compania Espanola de Credito a la Exportacion S.A., Madrid. | Insurance activity..... | Bank of America..... | 1.2 | S _{BH} |
| Interfinanciera S.A., Madrid..... | Finance company..... | do..... | 1 | S _B |
| Interpromotora S.A., Madrid..... | Real estate company..... | do..... | 10 | E |
| Promotora Club Financion Genova, Madrid..... | Services..... | do..... | 15 | E |
| *Hispanmarket, Madrid..... | Securities dealers..... | do..... | .5 | S _B |
| *Athos, S.A..... | Real estate..... | do..... | 50. | S _{BH} |
| | | | 50. | S _B |

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

| Name of country and overseas affiliate or subsidiary | Type of business | U.S. bank parent | Percent of ownership | Owned by— |
|---|--|--|----------------------|------------------|
| Spain—Continued | | | | |
| *Fabrica Espanola Magetos, S.A. Madrid.... | Manufacturer of automotive electrical equipment. | Bankers Trust..... | 3.4 | E |
| Transleasing S.A., Madrid..... | Leasing company..... | Chase Manhattan..... | 20 | S _E |
| **Liga Financiera, S.A. Madrid..... | Investment company. |do..... | 30.2 | S _E |
| **Banco Atlantico, Madrid..... | Commercial Bank.... | Continental Illinois National Bank & Trust Co. | 12.9 | E |
| Interleasing S.A., Madrid..... | Leasing company..... |do..... | 25 | E |
| *Union Industrial Bancaria, Barcelona..... | Industrial development bank. |do..... | .9 | E |
| **Banco Europeo de Negocios, Madrid..... | Development bank.... | First National Bank of Boston. | 2.4 | E |
| *International Factor Espanola S.A., Madrid..... | Credit agency..... |do..... | 23.4 | S _E |
| **Banco de Financiacion Industrial, S.A. (Induban), Madrid..... | Industrial bank..... |do..... | 5.16 | B |
| *Banco del Noroeste, La Coruna..... | Industrial development bank. | Manufacturers National Bank, Detroit, Mich. | 2.2 | E |
| Citilease International S.A., Madrid..... | Business credit..... | First National City Bank. | 50 | S _{BHC} |
| *Banco de Desarrollo Economico Espanol (Bandesco)..... | Development bank.... | Morgan Guaranty Trust Co., New York. | 4.5 | E |
| *Cofiber, S.A., Madrid..... | Industrial and real estate financing. | First National Bank of Miami. | 26.6 | S _{BHC} |
| King Ranch Espana S.A., Madrid..... | Nonbanking..... | Kleberg First National Bank, Kingsville, Tex. | 99 | BHC |
| Surinam: | | | | |
| Handels Industries En Krediet Bank N.V., Paramaribo. | Commercial bank.... | Bank of America..... | 10 | B |
| Sweden: | | | | |
| *International Factors A.B., Stockholm.... | Factoring..... | First National Bank of Boston. | 10 | S _E |
| Factoring Service A.B., Stockholm..... | Business credit..... | American National Bank & Trust. | 20 | S _{BHC} |
| Switzerland: | | | | |
| **Societe Financiere Pour les Pays d'Outre Mer (SFOM), Geneva. | Bank holding company. | Bank of America N.T. & S.A. | 25.2 | E |
| Corner Banco S.A., Lugano..... | Bank..... | Bank of America | 11.8 | S _E |
| *United Overseas Bank S.A., Geneva..... |do..... |do..... | 20.7 | S _{SE} |
| | | | .05 | E |
| | | | .01 | S _E |
| Privaco Trust Services S.A., Geneva..... | Miscellaneous banking. |do..... | 50 | S _{SE} |
| *Bankers Trust A.G., Zurich..... | Commercial bank.... | Bankers Trust Co., New York. | 100 | S _E |
| *Societe Immobiliere Il Rue Pierre Fatio, Geneva. | Real estate holding company. | Chase Manhattan Bank. | 100 | S _B |
| *Chase Manhattan Bank (Switzerland) Geneva. | Commercial bank.... | Chase Manhattan Bank N.A., New York. | 100 | B |
| Capital International S.A., Geneva..... | Economic and financial analysis. | Chase Manhattan Bank. | 50 | E |
| *Continental Illinois Bank (Switzerland), Zurich. | Commercial bank.... | Continental Illinois | 100 | E |
| **Business Associates S.A., Geneva..... | Business consultants. | Fidelity Bank, Rosemont, Pa. | 100 | E |
| *Greyhound Financial & Leasing Corp., A.G., Zug. | Capital equipment and financing company. | Fidelity Bank..... | 8.5 | E |
| Boston Investment & Financing Services, Zurich. | Trust service company. | First National Bank of Boston. | 100 | E |
| *International Factors and Leasing A.G., Zurich. | Holding Company..... |do..... | 10 | |
| *Factors, A.G., Zurich..... | Factoring..... |do..... | 10 | S _E |
| **Compagnie Pour le Placement Et Le Financement S.A., Geneva. | Development bank.... | First National City Bank. | 100 | E |
| *FNCB Investment Services, S.A., Geneva.. | Investment advisory service. |do..... | 100 | E |
| *Perfina A.G., Zurich..... | Finance company..... |do..... | 100 | S _E |
| *Citicorp Data Services S.A., Geneva..... | Computer services..... |do..... | 100 | S _{BBC} |
| *GATX/Boothe Finance A.G., Zurich..... | Finance capital equipment. | Manufacturers Hanover. | 10.5 | E |

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

| Name of country and overseas affiliate or subsidiary | Type of business | U.S. bank parent | Percent of ownership | Owned by— |
|--|---|---|----------------------|--------------------|
| Switzerland—Continued | | | | |
| *Morgan Guaranty Investment Services S.A., Geneva. | Investment advisory company. | Morgan Guaranty Trust Co., New York. | 100 | E |
| *Neue Bank A.G., Zurich. | Commercial banking and securities business. | do. | 10 | E |
| *Vonwiler S.A., Chiasso. | Financing. | do. | 100 | SSE |
| *Societe Holding de Financement cts et de Credit, S.A., Basle. | Holding company. | do. | .4 | E |
| Banque Scandinave en Suisse, Geneva. | Miscellaneous banking. | Northern Trust. | 25 | B |
| *Security & Prosperity Fund Services S.A., Zurich. | Offshore mutual fund. | Northern Trust Co., Chicago, Ill. | 4.2 | E |
| American Swiss Credit Corp. | Commercial financing. | Franklin National Bank. | 100 | E |
| *Seattle-First National Bank (Switzerland), Zurich. | Commercial bank. | Seattle-First National Bank, Seattle, Wash. | 100 | B |
| *Financiere UST, S.A., Geneva. | Purchase and sale agent. | U.S. Trust Co. | 100 | E |
| Sifida Investment Co., Geneva. | Investment company. | Republic National Bank. | .5 | S _B |
| Knoll International A.G.—Basel, Basel. | Holding company. | American National Bank & Trust. | 100 | S _{SSBHC} |
| First Chicago S.A., Geneva. | Merchant bank. | First National Bank of Chicago. | 100 | E |
| Proventina Commercial A.G., Zurich. | Investment company. | Marine Midland. | 5.7 | S _E |
| Western American Eurodeal (Continental) A.G., Zug. | Security and commodity broker. | National Bank of Detroit. | 100 | S _{SB} |
| Tahiti: | | | | |
| Banque de Polynesie S.A., Papeete. | Commercial bank. | First National City Bank. | 47.5 | B |
| do. | do. | Bank of Hawaii. | 20.5 | S _{BHC} |
| Entrepots et Transports Frigorifiques, Tahiti. | Transport. | do. | 4.4 | S _{BHC} |
| Tonga: | | | | |
| Bank of Tonga of Poangos, Nuku Alofa. | Bank. | do. | 20 | S _{BHC} |
| Taiwan (Republic of China-Nationalist): | | | | |
| *China Investment & Trust Co., Taipei. | Merchant bank. | Continental Illinois National Bank & Trust Co., Chicago, Ill. | 20 | E |
| *United Nylon Corp. | Manufacture of nylon fibre. | Fidelity Bank. | 4.1 | E |
| *Taiwan First Investment Trust Co., Ltd., Taipei. | Trust company. | First National City Bank, N.Y. | 50 | E |
| Overseas Trust Corp., Taipei. | do. | National Bank of Detroit. | 20 | E |
| *China United Trust & Investment Corp., Taipei. | do. | Irving Trust Co. | 20 | E |
| **China Trade & Development Corp., Taipei. | Trading company. | do. | 12.9 | E |
| **Do. | Warehousing. | Morgan Guaranty Trust Co., N.Y. | 10.2 | E |
| **Do. | do. | Bank of California. | 12.9 | E |
| *China Development Corp., Taipei. | Development bank. | Wells Fargo Bank NA, San Francisco. | 4.4 | S _E |
| Thailand: | | | | |
| *Industrial Finance Corporation of Thailand, Bangkok. | Finance corporation. | Bank of America N.T. & S.A., San Francisco, Calif. | 3.7 | E |
| *Do. | do. | Wells Fargo Bank. | 4 | S _E |
| *Do. | do. | Chase Manhattan Bank. | 1.4 | E |
| Bangkok Stock Exchange, Ltd., Bangkok. | Security and commodity broker. | do. | 2 | S _E |
| *Metal Box Co., Ltd., Bangkok. | Cans producer. | Bankers Trust. | 2.9 | S _E |
| *Serm Suk Co., Ltd., Bangkok. | Pepsi-Cola bottling franchise. | do. | 3.8 | S _E |
| Dole Thailand Ltd., Bangkok. | Nonbanking. | do. | 4.4 | S _E |
| Thai Investment Securities Co., Ltd., Bangkok. | Credit agency. | do. | 67.8 | E |
| *Rama Tower Co. Ltd., Bangkok. | Hotel. | do. | 1.4 | E |
| *Do. | do. | do. | 6.5 | S _E |
| Multi Credit Corp. of Thailand Ltd., Bangkok. | Commercial finance. | Philadelphia National Bank. | 24 | E |
| *Siam Cement Co., Ltd., Bangkok. | Cement company. | Bankers Trust Co., New York. | .3 | S _E |
| *Do. | do. | Manufacturers Hanover. | .1 | E |
| *Do. | do. | Philadelphia National Bank. | .4 | E |
| *Do. | do. | Irving Trust. | .3 | E |
| Siam Cement Co., Bangkok. | do. | Bank of America. | .7 | E |

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

| Name of country and overseas affiliate or subsidiary | Type of business | U.S. bank parent | Percent of ownership | Owned by— |
|---|--|--|-------------------------|---------------------|
| Thailand—Continued | | | | |
| *Chase Manhattan Investment Co. (Thailand), Ltd., Bangkok. | Finance company | Chase Manhattan Bank, N.A., New York. | 100 | E |
| *Bangkok First Investment & Trust, Ltd., Bangkok. | Investment banking | First National City Bank. | 49 | E |
| *First National City Development Finance Corp. (Thailand), Ltd. | Industrial development. | do. | 100 | E |
| *Good Earth Financial, Ltd., Bangkok. | Loan guarantor | do. | 25 | S _E |
| *Bangkok Home Development Co., Ltd. | Real estate and home finance. | do. | 10 | S _E |
| *Bangkok Nomura International Securities Co., Ltd., Bangkok. | Investment banking | do. | 15 | S _E |
| Wang Lee Bank, Ltd., Bangkok | Investment company | do. | 100 | B |
| Bangkok First Tokai Co., Ltd., Bangkok | Credit agency | do. | 10 | S _E |
| Bangkok First Tokai, Ltd., Bangkok | do. | do. | 30 | E |
| *Commercial Credit Corp. (Thailand), Bangkok. | Consumer finance company. | do. | 39.3 | E |
| *Industrial Finance Corp. of Thailand, Bangkok. | Industrial | Manufacture Hanover | 3.7 | E |
| *Do. | Business credit | First National City Bank. | .1 | S _B |
| *Industrial Finance Corp., Bangkok | Finance company | United California Bank, Los Angeles. | 1.8 | E |
| Marine Midland (Thailand) Ltd., Bangkok | Credit agency | Marine Midland | 100 | S _E |
| Metro Housing & Construction Corp., Ltd., Bangkok. | Construction | Continental Illinois | 20 | S _E |
| *Continental Illinois Thailand Ltd., Bangkok. | Investment bank | Continental Illinois National Bank & Trust Co. | 100 | E |
| Tunisia: | | | | |
| *Union Internationale de Banque, Tunis | Commercial bank | Bank of America N.T. & S.A. | 4 | E |
| *Banque de Tunisia, Tunis | do. | Bankers Trust Co., | 2.2 | E |
| *Union Bancaire Pour le Commerce et l'Industrie. | Commercial and investment bank. | Morgan Guaranty Trust Co., N.Y. | 5.7 | E |
| *NPK-Engrais S.A.T., Sfax | Fertilizer manufacture. | Philadelphia National Bank. | 1 | S _E |
| Turkey: | | | | |
| **Turk Dis Ticaret Bankasi, Istanbul | Bankers | Bank of America | *20 *4 | E S _E |
| Eregli Steel Corp., Amkara | Steel manufacture | Chase Manhattan | Warrants | |
| *Turkiye Sinai Kilkimma Bankasi A.S., Istanbul. | Development bank | Fidelity Bank, Rosemont, Pa. | .8 | E |
| *International Bank for Commerce & Industry (Utebank). | Commercial bank | Marine Midland Bank, N.Y. | 24 | S _E |
| Trucial States: | | | | |
| The Commercial Bank of Dubai Ltd., Dubai. | do. | Chase Manhattan | 38 | E |
| Citicorp Gulf Finance Ltd., Dubai | Credit agency | First National City Bank. | 100 | E |
| Dubai Bank Ltd., Dubai | Commercial bank | Wells Fargo | 10 | S _E |
| *National Bank of Dubai, Dubai | Commercial banking | Bank of America N.T. & S.A., San Francisco, Calif. | 3.7 | E |
| United States of America: | | | | |
| Bank of America, San Francisco | Bank | Bank of America | 10 | S _E |
| Derimus Corp. San Francisco | do. | do. | | |
| *Bayorient Holding Corp., Boston | do. | Bank of New York | 12 | E |
| The Venture Group Inc., Dallas | Oil exploration and insurance brokers. | Bank of Virginia, Richmond. | 4.4 | S _E |
| *BT International (Delaware) Inc., New York, N.Y. | Holding company | Bankers Trust | 100 | E |
| Chase Manhattan Overseas Finance Corp., New York. | Finance company | Chase Manhattan Bank | 100 | E |
| Chase Manhattan Consulting Inc., New York. | Miscellaneous banking. | do. | 100 | BHC |
| *Northwest Iron Co., Ltd., Cleveland | Iron ore exploitation, Tasmania. | Chemical Bank | (D)10 12.9 (C)2.8 | E |
| *C. & S. International Bank, Miami | do. | Citizens & Southern | 18.2 | E |
| Continental Illinois (Delaware) Ltd., Chicago. | Holding company | Continental Illinois | 100 | BHC |
| Exchange National Bank Trust Co. | Trust company | Exchange National Bank, Chicago. | 99 | E |
| *International Factors Corp., New York | Name holding corporation. | First National Bank of Boston. | 100 | E |
| Boston Factors International Inc., Boston | Factoring company | do. | 100 | E |

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

| Name of country and overseas affiliate or subsidiary | Type of business | U.S. bank parent | Percent of ownership | Owned by— |
|---|--|---|----------------------|-----------|
| United States of America—Continued | | | | |
| First Chicago (Delaware), Inc., Chicago | | First National Bank of Chicago. | 100 | E |
| Citilease, Inc., Delaware | Business credit institute. | First National City Bank. | 100 | BHC |
| *Bandtex International, Philadelphia | Export manager | Fidelity Bank | 30 | E |
| Bortex International, Philadelphia | do | do | 21.2 | E |
| *Citicorp Aerolease (CAL), Inc., New York | Business credit | First National City Bank. | 100 | S BHC |
| *Centaur Investment Corp., New York (Delaware). | Holding company | do | 100 | E |
| *Foremost Investment Corp., New York | do | do | 100 | E |
| *Yonder Investment Corp., New York | Investment company | do | 99.9 | E |
| *Broad Investment Corp., New York (Delaware). | Holding company | do | 100 | E |
| *Nessus Investment Corp., New York (Delaware). | Investment company | do | 99.9 | E |
| *Nostro Investment Corp., New York (Delaware). | Holding company | do | 100 | E |
| *Citicorp Aerolease (IB), Inc., Wilmington, Del. | Business credit | do | 100 | S BHC |
| *American Swiss Credit Co., Ltd., New York. | | Franklin National Bank. | 100 | E |
| Buck & Doe Run Valley Farms Co., Coatesville, Pa. | Nonbanking | Kleberg First National Bank, Kingsville, Tex. | 100 | BHC |
| Kingsville Lumber Co., Kingsville, Tex. | do | do | 100 | BHC |
| Kingsville Milling Co., Kingsville, Tex. | do | do | 100 | BHC |
| Kingsville Publishing Co., Kingsville | do | do | 100 | BHC |
| Kingwood Properties, Houston, Tex. | do | do | 50 | BHC |
| Kleberg First National Bank, Kingsville, Tex. | Bank | do | 28.8 | BHC |
| Ragland Merchantile Co., Kingsville, Tex. | Nonbanking | do | 100 | BHC |
| Pan Ocean Oil Corp., New York | do | Manufacturers Hanover Trust. | NA | S B |
| Exchange National Bank Compensation Fund, Ltd. | | do | 99 | E |
| Exchange National Bank Provident Fund, Ltd. | | do | 99 | E |
| First Empire Financial Services, Ltd. | Finance | Manufacturers & Traders Trust, Buffalo. | 100 | E |
| First Empire Development Co., Ltd. | | do | 100 | S E |
| *Marine Midland, Inc. | Credit agency | Marine Midland | 100 | E |
| *Marine Midland Overseas Corp. | | do | 100 | E |
| J. P. Morgan Overseas Capital Corp., New York. | Foreign loans | Morgan Guaranty | 100 | E |
| *Bay Orient Holding Co., Boston | Management consulting for industrial development in Korea. | New England Merchants National Bank. | 10.3 | E |
| TTT Inc., Dover | Ship transport | Philadelphia National Bank. | 7.4 | E |
| Ciave-American Corp., New York | Trade finance | do | 48 | E |
| *Philadelphia International Leasing Corp., Philadelphia. | Leasing corporation | do | 100 | E |
| Republic Overseas Corp., Dallas | Investment | Republic National Bank of Dallas. | 100 | E |
| *Security Pacific Overseas Investment Corp., Los Angeles. | Funding of investments abroad. | Security Pacific National Bank. | 100 | E |
| *Back Bay Orient Enterprises Inc., Boston | Capital venture | United California | 19.1 | E |
| *UST Capital Corp., New York | Financing vehicle for offshore investment. | U.S. Trust Co. | 100 | E |
| U.S. Trust Multinational Fund—Luxembourg; New York. | Miscellaneous banking. | do | .23 | S S E |
| *U.S. Trust Investment Fund, New York | Investment fund for non-U.S. residents. | do | .01 | S E |
| *Pepco (Delaware) New York | Medium and long term export financing. | American National Bank of Chicago. | | E |
| *Do | do | Bank of America | 6 | E |
| *Do | do | Bank of California | .7 | E |
| *Do | do | Central National Bank of Cleveland. | .006 | E |
| *Do | do | Franklin National Bank | 1.9 | E |
| *Do | do | Girard Trust | 1.2 | E |
| *Do | do | Chemical Bank | 6 | E |
| *Do | do | First National City Bank | 6 | E |

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

| Name of country and overseas affiliate or subsidiary | Type of business | U.S. bank parent | Percent of ownership | Owned by— |
|---|--|---|----------------------|----------------|
| United States of America—Continued | | | | |
| *Pepco (Delaware) New York | Medium and long term export financing. | Manufacturers Hanover | 6 | E |
| *Do | do | Harris Trust Savings Bank. | .01 | E |
| *Do | do | Indiana National Bank. | .6 | E |
| *Do | do | Mercantile Trust Company N.A., St. Louis. | 1.1 | E |
| *Do | do | National Bank of Commerce of Seattle. | .7 | E |
| *Do | do | National Bank of North America. | .7 | E |
| *Do | do | Provident National Bank. | .8 | E |
| *Do | do | Republic National of Dallas. | .01 | E |
| *Do | do | Morgan Guaranty Trust Co. | 6 | E |
| *Do | do | Continental Illinois | 4.7 | E |
| *Do | do | Society National of Cleveland. | .7 | E |
| *Do | do | U.S. National Bank of Oregon. | .8 | E |
| *Do | do | Bankers Trust | 5.1 | E |
| *Do | do | Northern Trust Co. | .8 | E |
| *Do | do | United California | 2.1 | E |
| *Do | do | Crocker National | 2.6 | E |
| *Do | do | Irving Trust | 2.8 | E |
| *Do | do | Marine Midland | 1.6 | E |
| *Do | do | Pittsburgh National Bank. | 1 | E |
| *Do | do | Security Pacific National Bank. | 3.7 | E |
| *Do | do | Wells Fargo | 4 | E |
| *Do | do | Chase Manhattan Bank. | 6 | E |
| *Wells Fargo International Investment Corp., New York | Investment corporation. | Wells Fargo | 100 | E |
| Wells Fargo & Co., of Cuba, San Francisco | Holding company | do | 100 | BHC |
| Wells Fargo & Co. of Mexico | do | do | 100 | BHC |
| Uganda: | | | | |
| *Uganda Crane Industries Ltd., Kampala | Investment company | Irving Trust | 5 | E |
| Uruguay: | | | | |
| *Union de Bancos del Uruguay, Montevideo | Commercial bank | Philadelphia National Bank. | 2 | E |
| Venezuela: | | | | |
| **Banco Mercantil y Agrícola, C.A., Caracas | do | Chase Manhattan Bank NA, N.Y. | 30 | E |
| *Continental de Creditos Mercantiles S.A., Caracas | Finance company | Northwestern of Minneapolis. | .7 | E |
| Arrendadora Industrial Venezolana C.A., Caracas | Leasing company | First National Bank of Boston. | 24 | E |
| Continental de Creditos Mercantiles C.A. | do | Crocker National | 1.5 | E |
| *Inversiones y Adelantos C.A. (INADECA), Caracas | Financial holding company. | First National City Bank, N.Y. | 100 | E |
| *Citicredito C.A., Caracas | Credit card | do | 50 | S _B |
| *Arrendequipos C.A., Caracas | Leasing company | do | 100 | S _B |
| *Adelantos y Creditos C.A., Caracas | Finance company | do | 39.9 | E |
| *Giros y Facturas Negociables, Caracas | Services | do | 39.9 | S _B |
| Citidata C.A., Caracas | do | do | 100 | S _B |
| *C.A. De Investigaciones Mercantiles, Caracas | Credit investigation | do | 39.9 | S _B |
| *Protinal, C.A. Valencia | Animal feed manufacturer. | Northwest National Bank of Minneapolis. | .5 | E |
| Sociedad Financiera del Centro C.A. Caracas | Finance company | Irving Trust | | E |
| *C. A. Venezolana de Desarrollo, Caracas | Development finance company. | Northern Trust Co., Chicago. | 1.3 | E |
| *Do | do | Fidelity Bank Rosemont, Pa. | 1.3 | E |
| *Do | do | Chemical Bank | 1.3 | E |
| Sociedad Anonima Escuela Campo, Alegre, Caracas | Private school | do | .16 | E |
| Sociedad Financiere Exterior C.A. (Finexca), Caracas | Finance company | do | 30 | E |
| Companie Venezolana de Ganaderia Inc., Valencia | Nonbanking | Kieberg First National Bank. | 75 | BHC |
| Rio Yaracuy C.A., Valencia | do | do | 100 | BHC |
| Financiera Nacional S.A., Caracas | Investment company | Wells Fargo | 40 | S _B |
| Metro-America C.A., Sociedad Financiera | Finance | Bank of America | 40 | E |
| Negocios y Servicios Bimeca S.A., Caracas | Credit agency | do | 100 | S _B |

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

| Name of country and overseas affiliate or subsidiary | Type of business | U.S. bank parent | Percent of ownership | Owned by— |
|---|------------------------------|---|----------------------|-----------|
| Venezuela—Continued | | | | |
| Finabac de Venezuela C.A., Caracas..... | Business credit institution. | First National Bank of Chicago. | 100 | SE |
| First Chicago (Venezuela) C.A., Caracas..... | do..... | do..... | 100 | SE |
| Consorcio Inversionista Mercantil y Agrícola C.A., Caracas..... | Holding company.... | Chase Manhattan Bank. | 32.9 | E |
| *C.A. Venezolana de Desarrollo, Caracas.... | Development finance company. | Manufacturers Hanover. | 3.8 | E |
| Sociedad Financiera Matlock C.A., Caracas.. | Credit agency..... | First Wisconsin..... | 19.7 | BHC |
| Sociedad Financiera Union, C.A..... | do..... | Marine Midland..... | 40 | SSE |
| Western Samoa: | | | | |
| Pacific Savings & Loan Co., Ltd., Apia..... | do..... | Bank of Hawaii..... | 38.9 | SBHC |
| Vaito'a Hotels Ltd., Apia..... | Services..... | do..... | 4.4 | SBHC |
| Virgin Islands: | | | | |
| **Vinbank Realty Inc., St. Thomas..... | Real estate agent.... | First Pennsylvania Banking & Trust Co. | 100 | A |
| Virgin Islands: | | | | |
| Northern Offshore..... | Services..... | Marine Midland Bank.. | 9.6 | SSE |
| Yugoslavia: | | | | |
| *Zavedi Crvena Zastava, Fiat SJA, Belgrave.. | Manufacturing..... | Franklin National..... | 1 | E |
| *Zavedi Crvena Zastava, Fiat, SJA, International Investment Corp. | Investment company.. | Marine Midland..... | 4.2 | SE |
| Zaire: | | | | |
| *Societe Congolaise de Banque Kinshasa.... | Bankers..... | Bank of America..... | .01 | SE |
| Banque du Peuple, Kinshasa..... | Bank..... | do..... | .01 | SE |
| Chemin du fer Kiva, Zaire..... | Transportation..... | Manufacturers Hanover. | .01 | SE |
| *First National City Bank (Zaire) S.A..... | Commercial banking. | First National City Bank, New York. | 100 | B |
| Societe Textile De Kisangani..... | Textile mill..... | Chase Manhattan..... | 18.8 | E |
| *Banque Commerciale Zairoise, Kinshasa.... | Commercial bank.... | Morgan Guaranty Trust Co. | 3.7 | E |
| *Societe Financiere de Development, Kinshasa. | Development bank.... | do..... | 3.1 | E |
| Banque de Paris et des Pays-Bas, Kinshasa.. | Commercial bank.... | Crocher National Bank. | 16.1 | E |
| Societe Financiere de Development, Kinshasa. | Investment bank..... | Philadelphia National Bank. | 25 | E |
| Zambia: | | | | |
| **Commercial Bank, Zambia, Ltd., Lusaka.. | Commercial bank.... | Continental Illinois National Bank & Trust Co., Chicago, Ill. | 13 | E |

APPENDIX B

LAWS REGULATING U.S. BANKS OVERSEAS

LAWS REGULATING U.S. BANKS OVERSEAS

TABLE 1.—ENTRANCE AND ORGANIZATION REQUIREMENTS

| | Highest official level with discretionary powers of approval over U.S. bank entry | Demonstration of U.S. reciprocity | Restrictions on entry most effectively imposed by— | | License term | Capital requirements |
|---------------------|---|-----------------------------------|--|----------------------|---|--|
| | | | Legislation | Discretionary policy | | |
| WESTERN HEMISPHERE | | | | | | |
| Argentina..... | Central bank..... | None required..... | X..... | | Indefinite..... | Pesos 600,000,000 (\$2,791,000) in Federal District of Buenos Aires. In other cities requirements vary according to population. |
| Bahamas..... | Parliament..... | Required..... | X..... | X..... | 1 yr..... | None specified. |
| Brazil..... | Executive decree (Ministry of Finance) and National Monetary Council (president of Central bank). | | | | Usually 20 yrs for commercial banks; variable for other banking institutions. | Identical to requirements of domestic banks and periodically revised by Central bank. Requirements vary with location, population, number of existing banks, etc. Deposits may not exceed 15 times capital and reserves. Foreign banks must meet additional requirement of presenting list of shareholders and their resolution to establish a unit, plus power of attorney. |
| Canada..... | Parliament..... | None required..... | X..... | | Term of Bank Act—usually 10 yr. | Authorized capital stock of not less than Can\$1,000,000 divided into shares of Can\$10 each. ¹ |
| Cayman Islands..... | Governor..... | None..... | X..... | | Subject to discretion of administrator in Council. | Paid up capital of at least C\$100,000 or guaranteed under seal of not less than C\$100,000 given by the holding or parent or other company approved by the administrator. |
| Chile..... | See explanation in footnote 2. According to decree-law 231 of December 1973, only officers of representations (representaciones) of foreign private banks presently permitted. State-owned foreign banks permitted. | Not applicable..... | X..... | | 30 yr. according to General Banking law. | See footnote 2. |
| Colombia..... | Banking superintendency (law 45 of 1923) under the President of the Republic (art. 120, sec. 14, 15 of Constitution). | None required..... | X ² | | Indefinite..... | At least 300,000 pesos in cities with a population exceeding 150,000 inhabitants (law 16/36). |
| Costa Rica..... | Central Bank, with a favorable report by the Auditor General of Banks. | do..... | X..... | | 30 yr which may be extended by the Central Bank. | Minimum: 5,000,000 colones for all private banks. The state-owned "national banking system," has special rates. |
| Guatemala..... | Junta Monetaria, Ministry of Economics..... | No..... | X..... | | Indefinite..... | Junta Monetaria determines in each case. No standard requirements. Quetzales: 2,000,000.00 for branches. |

See footnotes at end of table.

TABLE 1.—ENTRANCE AND ORGANIZATION REQUIREMENTS—Continued

| | Restrictions on entry most effectively imposed by— | | Demonstration of U.S. reciprocity | License term | Capital requirements |
|------------------------------|---|---|-----------------------------------|--------------|----------------------|
| | Legislation | Discretionary policy | | | |
| WESTERN HEMISPHERE—Continued | | | | | |
| Honduras | Executive branch upon recommendation of the Central Bank. | None required | ----- | X | Indefinite. |
| Jamaica | Parliament | do. | X | ----- | 1 yr. |
| Mexico | Decree of Dec. 27, 1955 (P.O., Dec. 30, 1955). | Not applicable | X | ----- | Not applicable |
| Nicaragua | Executive resolution of Ministry of Economics upon recommendation of the Central Bank. | Not required | ----- | X | Indefinite |
| Panama | The Ministry of Planning and Political Economics and the National Banking Commission (Cabinet decree 238 of July 2, 1974, and law 20 of Feb. 28, 1973). | None required | ----- | X | do. |
| Peru ³ | Central Reserve Bank | Not applicable | ----- | X | Not applicable |
| Venezuela | Law of Apr. 22, 1975, G.O. of May 22, 1975, prohibits new foreign banks in Venezuela, as a general rule. It accepts the existing foreign banks, the agencies (oficinas de representación) of foreign banks; technical or operational internal divisions of foreign banks (but not allowed to work as a bank); and new Latin American banks. | do. | X | ----- | do. |
| AFRICA AND MIDDLE EAST | | | | | |
| Cameroon | Council National de Crédit (National Council of Credit) under the authority of the Ministry of Finance. | None required | ----- | X | Indefinite |
| Egypt | A presidential decree | do. | ----- | X | do. |
| Iran | High Council of the Iranian Central Bank. | Not specified | ----- | X | Indefinite |
| Israel | The Governor of the Bank of Israel | Reciprocity is not a statutory condition to the issuance of a permit to | ----- | ----- | ----- |

TABLE I.—ENTRANCE AND ORGANIZATION REQUIREMENTS—Continued

| | Highest official level with discretionary powers of approval over U.S. bank entry | Demonstration of U.S. reciprocity | Restrictions on entry most effectively imposed by— | | License term | Capital requirements |
|------------------|---|---|--|-----------------------|-----------------------|--|
| | | | Legislation | Discretionary policy | | |
| EUROPE—Continued | | | | | | |
| Belgium..... | Banking Commission operating under supervision of Ministry of Finance. | None for banks, but required for other business activities. | (¹)..... | (¹)..... | No license required.. | The minimum capital requirement for a foreign bank to function in Belgium was increased 50,000,000 francs. |
| France..... | Conseil National du crédit with appeal to the Commission de contrôle. | do. | | X..... | Indefinite..... | Minimum capital requirements identical to those of French banks, the amount of which varies according to type of operation, form of organization, number of offices, the amount of the balance, as well as the engagements not included in the balance as they appear at the closing (of accounts) for the last 2 financial years. |
| Germany..... | Federal Banking Supervisory Authority (Bundesaufsichtsausschuss fuer das Kreditwesen Berlin). | do. | | (¹)..... |do..... | No requirement fixed by banking law. ⁴ |
| Greece..... | Ministry of Commerce with concurrence of Currency Committee. | do. | | X..... |do..... | Minimum of 150,000,000 drachmae (\$5,000,000). |
| Italy..... | Interministerial Committee for Credit and Saving, but actually the Bank of Italy which carries out the work and directives of this committee. | Not specifically required but to be taken into consideration by the Interministerial Committee in conjunction with the issuance of the license. However, a general principle of reciprocity may be invoked if Italian banking undertakings abroad are discriminated against or are not permitted to operate under the laws of the host country. | | X..... |do..... | Requirements determined by the Interministerial Committee for Credit and Saving—actually the Bank of Italy—in conjunction with issuance of license. |
| Netherlands..... | Minister of Finance through the bank. | None required. | (¹)..... | X..... | Indefinite..... | A minimum capital of f.100,000 is required. Under the new law this minimum will be f.500,000. |
| Spain..... | Ministry of Finance and Chief of State. ⁹ | Yes. | X..... | X..... | Not determined..... | At least 100,000,000 pesetas in cities with a population exceeding 250,000. |
| Sweden..... | Not applicable. | Not applicable. | X..... | | Not applicable..... | Not determined. |

| Switzerland | Federal Banking Commission | Effectively required | X | Indefinite | Minimum capital for a Swiss corporation is SwF50,000 of which ⅓—but at least SwF20,000—must be paid in. ¹⁰ |
|----------------------------|---|---|---|---|--|
| United Kingdom | Treasury through the Bank of England | None required | X | No license required | No legal requirements but size and status would be a factor. Full authorization unlikely if capital employed less than \$1,000,000. ¹¹ |
| ASIA | | | | | |
| Australia | Applications made to the Commonwealth Treasurer, Governor General has discretion to grant authority to carry on banking business. ¹² | Not applicable | X | At discretion of Treasurer, usually indefinite. | Not applicable. |
| Bangladesh ¹³ | In law, the Governor of the State Bank of Pakistan; in practice the Ministry of Finance | Required | X | Variable | Do. |
| Hong Kong | The Governor of Hong Kong, with the advice of the Executive Council. | None required, except for banks incorporated in one of Hong Kong's export markets which is not yet represented by a bank in Hong Kong, in which case reciprocity is required. | X | Indefinite | Capital of not less than HK\$10,000,000. Branches of banking companies incorporated outside Hong Kong must have assets in excess of deposit liabilities by not less than HK\$10,000,000. |
| India | In theory, the Governor of Reserve Bank; in practice, Minister of Finance on behalf of the Government of India. | Required | X | Variable | Rs 2,000,000 in Indian Government securities or cash plus 20 percent of annual profits which must be deposited with Reserve Bank. (There are no foreign currency requirements.) |
| Japan | Ministry of Finance | do | X | Indefinite | None for branches of U.S. banks. |
| Malaysia | Minister of Finance | None required | X | do | Net capital must be greater than M\$5,000,000. Net working funds in Malaysia must be greater than M\$2,000,000. |
| Pakistan | In theory, Governor of the State Bank of Pakistan; in practice, the Minister of Finance on behalf of the Central Government. | Required | X | Variable | 5 percent of time and demand liabilities or a minimum of 2,000,000 rupees in Pakistan currency deposited with the State Bank, or in unencumbered securities or partly in cash and partly in such securities. |
| Philippines | Monetary Board of the Central Bank | None required | X | Indefinite | The amount of capital as approved by the Monetary Board must reasonably assure the safety of the interests of the public. |
| Singapore | The Monetary Authority of Singapore (MAS) | do | X | do | For banks with head offices outside Singapore, not less than \$36,000,000, with not less than \$33,000,000 to be held in assets approved by the MAS. |
| Republic of China (Taiwan) | Ministry of Finance | do | X | do | Ministry of Finance may require minimum capital (at present, about \$500,000). |
| South Korea | Bank of Korea (Monetary Board upon recommendation of Superintendent of Banks). | do | X | do | Minimum of 400,000,000 won (about \$800,000). |
| Thailand | Minister of Finance | do | X | do | Foreign banks must maintain assets in Thailand to a value of not less than 5,000,000 baht. |

See footnotes at end of table.

TABLE I.—ENTRANCE AND ORGANIZATION REQUIREMENTS—Continued

| | Type of organization for foreign banks to operate in country | Private banking institutions in which U.S. participation specifically not permitted | Restrictions on number of offices | Degree of participation permitted in locally organized affiliate | Restrictions on directorships held by nationals in locally organized affiliates | Country position on additional U.S. bank entry |
|---------------------|--|---|---|--|---|--|
| WESTERN HEMISPHERE | | | | | | |
| Argentina..... | Corporations (S.A.) except when established as a branch. | Not restricted. | None officially, but foreign banks are not allowed to establish new branches outside Buenos Aires. | No restrictions on equity ownership. | Yes, as determined by pertinent authority. | Open on limited basis. |
| Bahamas..... | (a) Principal office in the Bahamas; (b) officer named as bank's authorized agent in the Bahamas; (c) authorized alternate. | None. | None. | No limitation. | None. | Open. |
| Brazil..... | Corporations, except credit corporations. | Not restricted. | As applicable to all banks, the number of offices is dependent upon bank's capital funds and prior authorization by central bank. | No legal restrictions on equity ownership. | Directors should be residents of Brazil. | Open on a limited basis. |
| Canada..... | Locally organized affiliate (chartered bank). ¹⁴ | Not restricted. | None. | Single holdings are limited to 10 percent, whether it be a foreign or domestic group, and total foreign ownership to 25 percent. | A Canadian bank cannot have less than 5 directors, the majority must be "subjects of Her Majesty, ordinarily resident in Canada". ¹⁵ | Effectively closed. |
| Cayman Islands..... | No specific type but has principal office in the Islands, an authorized agent of the bank and an authorized substitute for authorized agent. | None. | do | None. | None. | Open. |
| Chile..... | Office of representations (representaciones). | See footnote 2. | Not applicable. | Majority participation (up to 100 percent permitted but only in representative offices). | Not applicable. | See footnote 2. |
| Colombia..... | Locally organized mixed corporation. | Not restricted. | None, but subject to approval (Law 43/73). | Up to 49 percent participation (Decree 1900/73). | No known restrictions. | Subject to the Cartagena Agreement of 1959. |
| Costa Rica..... | Locally organized affiliate corporations. | The majority of the banking system is state-owned but private banks are permitted either with local or foreign capital. | None. | No restrictions on equity ownership. | None. | |
| Guatemala..... | Must have a board of directors, except foreign branches. (Corporation seems implicit.) | do | do | | | |

| | | | | | | |
|------------------------|--|---|--|---|---|---|
| Honduras | Branch or agency organized under Honduran law. | Not restricted. | None. The same rules as Honduran banks. Central Bank must approve new offices. | No restrictions on equity ownership. | do | Open. |
| Jamaica | Minister must be informed that any bank whose head office is outside Jamaica has: (a) principal place of business in Jamaica; (b) an officer named as the bank's authorized agent in Jamaica; and, (c) an authorized substitute for authorized agent. | None. | None. | Unrestricted | do | None. |
| Mexico | Not applicable. | No foreign participation is permitted in banks, financiers, insurance companies, or underwriting firms. | Not applicable. | Not applicable. | None as affecting existing banks. | Closed. |
| Nicaragua | Branch | Not restricted. | None. | No restrictions on equity ownership. | None. | Open. |
| Panama | No specific type required. | do. | do. | do. | do. | Do. |
| Peru | Corporation or cooperative. | No new foreign banks allowed. | None specifically stated but in practice limited to needs of service area. | Up to 20 percent of former foreign banks now nationalized under decree-law 19043 of Nov. 25, 1971. | Not applicable. | Closed. |
| Venezuela | Not applicable to new entries. No specific type required to existing banks. | New U.S. investments in banks or other credit institutions are not permitted. | Existing U.S. banks cannot open new offices. | Not applicable with respect to new entries of capital. No apparent restrictions in existing banks, but they cannot increase the authorized capital. | No legal restrictions to existing foreign banks (the general rule for Venezuelan banks is that $\frac{3}{4}$ of the members of the board must be Venezuelans. | Government is closed to additional U.S. bank entry. |
| AFRICA AND MIDDLE EAST | | | | | | |
| Cameroon | Banks are permitted to adopt the following forms: (a) company limited by shares; (b) limited partnership with share capital. | Not restricted, but any agreement is subject to prior consent of the Ministry of Finance. | None, but opening subject to the approval of the Ministry of Finance. | Participation permitted by approval of the Ministry of Finance. | Management personnel must be of Cameroon nationality. | Open. |
| Egypt | (1) Any organization that is capable of contributing to development projects of the country. (2) Investment banks. (3) Banks using local currency operating in co-operation with local capital owned by Egyptian nationals with a minimum of 51 percent participation. | Housing projects developed for investment purposes. | No restrictions. | Open. | Directorships of banks is strictly reserved for Egyptian nationals. | None. |

See footnotes at end of table.

TABLE I.—ENTRANCE AND ORGANIZATION REQUIREMENTS—Continued

| | Type of organization for foreign banks to operate in country | Private banking institutions in which U.S. participation specifically not permitted | Restrictions on number of offices | Degree of participation permitted in locally organized affiliate | Restrictions on directorships held by nationals in locally organized affiliates | Country position on additional U.S. bank entry |
|----------------------------------|---|--|--|--|--|--|
| AFRICA AND MIDDLE EAST—Continued | | | | | | |
| Iran | Public joint stock company with registered shares. | Not restricted | Discretion of the High Council of Iranian Central Bank. | No restrictions specified. | None | Open. |
| Israel | Foreign banks may establish branches in Israel (after registration as a foreign corporation with the Registrar of Companies), or they may control a domestic company licensed to do banking business. | None | Establishing branch bank offices in Israel requires a permit from the Governor; there is no a priori limit on the number of such permits which may be granted. | 100 percent foreign ownership is permitted. | There is no statutory restriction on the citizenship of directors of a bank operating in Israel, whether as a domestic or a foreign bank. It is normally expected that a majority of the directors of banks incorporated in Israel be Israeli residents. | Israel welcomes the entry of qualified American banks. |
| Ivory Coast | Company limited by shares. | Not restricted, but subject to approval by the Ministry of Economic and Financial Affairs. | None, but subject to approval by the Ministry of Economic and Financial Affairs. | Not restricted, but subject to approval by the Ministry of Economic and Financial Affairs. | None | Open. |
| Lebanon | Any further U.S. entry must be through an existing Lebanese corporation. ¹⁴ | Not restricted | Any new branches or offices must have prior approval of Lebanese authorities. ¹⁵ | Minority Lebanese interest is acceptable. | Majority should be Lebanese nationals (not related to actual stock membership). | Restricted. ¹⁷ |
| Liberia | No specific type required. | do | As designated in the license. | No restrictions noted. | No restrictions noted. | No restrictions noted. |
| Morocco | No restrictions. | do | Branch offices require consent in writing of the Central Bank. | Open. | None. | Open. |
| Nigeria | Nigerian incorporation is required. | do | | Any proposed arrangement must be approved by the Federal Banking Commissioner on the recommendation of the Central Bank. | None, but it is advisable to have at least 1 Nigerian director. | No restrictions. |
| Saudi Arabia | None required. | No restrictions | None. | Not permitted | None. | Open. |
| Tunisia | The type of joint stock company or any other type accepted as a part of the agreement. This type has to be in conformity with the laws of the country whose nationality they bear. | Not restricted. | Subject to the authorization of the Minister of Finance and the Central Bank of Tunisia. | Not restricted | Directorships of a domestic or foreign bank is reserved for Tunisian nationals. However special permission may be granted. | Subject to authorization. |

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| Turkey | Banks must be founded in the form of a joint stock company. Foreign banks must have the character of a joint stock company or an equivalent status according to the laws of the country whose nationality they bear. | do | Any new branches or offices must have prior approval of the Turkish authorities. | No restriction. But needs the approval of the Turkish shareholders, creditors, debitors of the bank are informed by an announcement lasting 15 days in at least 2 newspapers, including the Official Gazette. If within 3 months, no acceptable objection is raised, the participation, the merger, or the transfer is permitted by the Ministry of Finance. | No restrictions | Subject to the authorization of the Turkish authorities. |
| United Arab Emirates | Not required | No restrictions | All new branches are frozen for a 2-yr period. | (Dependent on Currency Board's ruling. | None | Frozen up to a 2-yr period for all applicants. |
| Zaire | Banks are permitted to operate only as companies limited by shares. | Not restricted but subject to the approval of the Banque Nationale (Central Bank). | None, but subject to the approval of the Banque Nationale (Central Bank). | Participation permitted by approval of the Banque Nationale (Central Bank). | do | Open. |
| Austria | None. However, the name of the firm must indicate "Bank" or "Banker." Organization may be sole ownership, corporation or company. | Not restricted | None, however, a license is required for each branch office. | No restrictions on equity ownership. | No restrictions, but subject to employment permit. | Open; encouragement of foreign investments. |
| Belgium | Banks are permitted to adopt any form or organization except Societe Cooperative. | Not restricted | None | No restrictions on equity ownership. | None | Open. |
| France | No specific type required | do | None. The same rules and regulations apply to foreign banks as to French banks; new branches or agencies must have prior approval of the Conseil National du Credit. | do | Authorization from Ministry of Finance. | Do. |
| Germany | do | do | None but approval must be obtained from Federal Banking Supervisory Authority for each additional office. | do | None | Do. |
| Greece | Locally organized affiliates | do | None, but prior approval of Currency Committee must be obtained for establishment of new branches. | Foreign participation limited to 40 percent. | Majority of directors, at least 60 percent, must be Greek nationals, resident in Greece. | Open only on a limited basis. |
| Italy | No specific type required | Not restricted by law | None but approval is required for opening of new branches. ¹⁹ | No legal restriction. ²⁰ | None | Open. |

See footnotes at end of table.

TABLE 1.—ENTRANCE AND ORGANIZATION REQUIREMENTS—Continued

| | Type of organization for foreign banks to operate in country | Private banking institutions in which U.S. participation specifically not permitted | Restrictions on number of offices | Degree of participation permitted in locally organized affiliate | Restrictions on directorships held by nationals in locally organized affiliates | Country position on additional U.S. bank entry |
|-------------------------|--|---|---|---|--|--|
| EUROPE—Continued | | | | | | |
| Netherlands..... | No specific type required but affiliates appear preferable under current regulatory climate. | Not restricted..... | None..... | Degree of participation in locally organized affiliates is closely scrutinized by Central Bank which may withhold approval when the degree of foreign ownership is not acceptable on grounds of banking policy. | There is no nationality requirement. | Open. |
| Spain..... | Locally organized affiliation.. | Not restricted..... | Regulated by decree 1312 of June 5, 1963 | Up to 50 percent participation. | None officially but effectively restricted to 50 percent. | Open only on a limited basis. |
| Sweden..... | Not applicable..... | No foreign participation is permitted in any banking institution. ²¹ | Not applicable..... | None..... | Not applicable..... | Closed. |
| Switzerland..... | No specific type required but branches or affiliates are preferable. | Not restricted, but non-Swiss may not purchase shares in existing Swiss corporations (including banks). | None, but opening of additional offices is subject to approval. | No restrictions on equity ownership. | Majority of directors must be Swiss citizens, domiciled in Switzerland. | Open, with reservation. ²² |
| United Kingdom..... | No specific type required but branches are the normal form. ²³ | Not restricted. ²⁴ | None..... | No restrictions..... | Any holding in any British company by a nonresident of over 10 percent has to have prior approval for exchange control purposes. ²⁵ | None. |
| ASIA | | | | | | |
| Australia..... | Applicant has to be a body corporate. ²⁶ | Trading banks..... | do..... | Not applicable to trading banks. No restrictions on equity ownership in other types of financial institutions. | None..... | Closed. |

| | | | | | | |
|----------------------------|--|--|---|---|--|--|
| Bangladesh | A company (or corporation in the United States) under the Companies Act. | Not restricted | Each new branch requires approval of the State Bank. | Participation permitted | Not determined | Open. |
| Hong Kong | No specific type required. | None | Approval of Commissioner of Banking required for establishing a branch in Hong Kong. | No restrictions | None | Except for applications from Hong Kong's export markets which are not yet represented in Hong Kong, all new applications for banking licenses have been refused since 1965; this applies to both foreign and domestic banks. |
| India | A company (or corporation in the United States) under the Companies Act. | Not restricted | No official restrictions but permission of reserve bank is required for opening of each branch. | Participation permitted | Not determined | Open. |
| Japan | Branches of Kabushiki Kaisha (Japanese corporation). At present all foreign banks operate as branches. | do | Each office requires Ministry of Finance approval. At present, it is almost impossible for any one bank to obtain approval to open additional branch offices. | Total foreign ownership may not exceed 15 percent. | None | Not determined. |
| Malaysia | No specific type required. | None | None | Full participation allowed if initial approval is obtained. However, if a bank becomes 50 percent owned or controlled by a foreign government, it must be wound up. | do | At present, the Malaysian Government is not approving applications of foreign banks to establish branches in Malaysia |
| Pakistan | A company (or corporation in the United States) under the Companies Act. | Not restricted | Each office requires approval of State Bank of Pakistan. | Participation permitted | Not determined | Open. |
| Philippines | Legally organized corporation. | Rural banks and others as declared by the Monetary Bank. | Subject to approval by the Monetary Board. | Not more than 25 percent of the net worth of the bank. | None | Do. |
| Singapore | Banks wishing to deal in the Asian Currency Unit (ACU) market must apply for authorization. | None | Subject to approval by the MAS. | Restrictions only against 50 percent or more of capital being owned or controlled by a foreign government or an agency of a foreign government. | Restrictions only against all or majority of directors being appointed by or on behalf of a foreign government or an agency of a foreign government. | Open on a limited basis: entry to the ACU market is still encouraged but entry to domestic banking business is more restricted. |
| Republic of China (Taiwan) | Either branches (essentially operating as agencies) or affiliates. | Not restricted | None officially, but at present, number is restricted by policy to 1. | No restrictions on equity ownership. | None | Believed to be still open. |
| South Korea | Branch or corporation | do | Each office requires approval of Monetary Board. | Not applicable to commercial banks. | Not applicable to commercial banks. | Not determined. |

See footnotes at end of table.

TABLE 1.—ENTRANCE AND ORGANIZATION REQUIREMENTS—Continued

[illegible]

TABLE II.—BANKING AND EXCHANGE REGULATIONS

| Country | Banking authority as applied to foreign banks | | | | |
|--------------------|--|--|--|---|--|
| | Investment requirements in national debt instruments | Deposit balance requirements in treasury, central bank, or clearing banks | Investment requirements in development banks, etc. | Prohibitions on types of loans extended by foreign banks not applicable to domestic banks | Application of foreign exchange restrictions on foreign banks |
| | (1) | (2) | (3) | (4) | (5) |
| WESTERN HEMISPHERE | | | | | |
| Argentina | None | Minimum reserve balances must be deposited in Banco Central de Argentina. | None | None | As applied to domestic banks. |
| Bahamas | do | "Statutory Reserve" percentage of its deposit liabilities in Bahamian dollars fixed by Bank at no less than 5 percent nor more than 30 percent, and not changed by more than 3 percent in any 30-day period. | do | do | Yes |
| Brazil | do | Reserve must be deposited with Banco de Brazil, as well as cash holdings in excess of 20 percent of deposits. Reserves are deposited with central bank. | do | do | Liquid assets not less than 10 percent in Bahamian dollars nor more than 30 percent. |
| Canada | Not officially | Banks to keep cash reserves with central bank at an average of 12 percent of demand deposits and 4 percent of time deposits unless changed by the Bank of Canada for all banks. Secondary reserves as set by the Bank of Canada must also be maintained. | do | do | As applied to domestic banks. |

See footnotes at end of table.

TABLE 11.—BANKING AND EXCHANGE REGULATIONS—Continued

| Country | Investment requirements in national debt instruments | Deposit balance requirements in treasury, central bank, or clearing banks | Investment requirements in development banks, etc. | Prohibitions on types of loans extended by foreign banks not applicable to domestic banks | Application of foreign exchange restrictions on foreign banks | Reserve requirements or liquidity restrictions | Banking authority as applied to foreign banks | | | |
|------------------------------|---|--|--|---|---|---|---|--|--|------|
| | | | | | | | Lending restrictions | Informal agreements on deposit and loan interest rate limits | Banking regulations (1), (2), (3) equally enforced on foreign and domestic banks | (4) |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) |
| WESTERN HEMISPHERE—Continued | | | | | | | | | | |
| Cayman Islands | None | None | None | Yes; see footnote 2, Table I. | As applied to domestic banks. | Yes | Yes | All banks observe the legal deposit and loan interest ceiling. | Yes, according to General Banking Law, but not presently applicable, as stated in footnote 2, Table I. | Yes. |
| Chile | Banks may invest in government obligations of all types without limitation. | Reserves are deposited with Central Bank. | None | None | None | Yes | Yes | Yes | Yes | Yes. |
| Colombia | do | Reserves must be deposited with Banco de la Republica. | None | Yes | do | Yes (d: see law 1973/31) | Yes | No. Central Bank fixes loan interest ceilings. | Same treatment to all private banks. But, state-owned banks enjoy certain privileges. | Yes. |
| Costa Rica | None | Not less than 10 nor over 50 percent of deposits must be held by Central Bank (in exceptional cases, deposits may exceed that limit, with interest rate of 3 percent). | None | None with respect to domestic private banks. Some types of loans are given only by state banks. | do | Yes: 10 percent of net profits constitutes "legal reserve." | Yes | No. | Same treatment to all private banks. But, state-owned banks enjoy certain privileges. | Yes. |
| Guatemala | 5 percent of assets. | 25 percent of reserves in the Bank of Guatemala. | None | None | do | 50 percent of assets in real estate or fixed properties. Other special reserves optional, 10 percent of credits and titles, and 5 percent of investments on titles of | Loans may not exceed 80 percent of collateral negotiable securities, 70 percent of other guaranties, and 50 percent on mortgage guaranty. | No. | | |

national debt.

1 yr common
loans, 3 yr
when
pledging, 25
yr when
mortgages.
Ceiling
determined
in each case
by Junta
Monetaria.

| Honduras | Central Bank may require investments in Securities Fund of the Central Bank. | Central Bank may require a deposit in the Central Bank. | No | None | Private banks (foreign and domestic) negotiations in foreign ex- change user- mitted: Cen- tral Bank regulates minimum and maximum rate of ex- change. | Yes | Yes | Interest rate limits fixed by Central Bank. | Yes. |
|----------|---|---|--|------|--|---|-----|---|--|
| | | | | | | | | | |
| Jamaica | None | Cash reserve in deposit form in the Bank of Jamaica of not less than 5 percent of its deposit liabilities nor more than 15 percent. | | None | | Reserve fund 10 percent of profits earned in that year from bank's Jama- ican opera- tions trans- ferred to serve fund until it equals the assigned capital 1 of the bank. | Yes | Yes, within speci- fied limits. | No. |
| Mexico | Capital and re- serves must be invested in assets payable in Mexico. | Existing foreign banks must maintain deposit balances with Banco de Mexico. | Banking law of 1965 pro- hibits invest- ment in any kind of finan- cial institu- on. | do | As applied to domestic banks. | Yes | Yes | None | Yes: foreign bank opera- tions estab- lished prior to 1965 law are subject to national regulations. |

See footnotes at end of table.

TABLE 11.—BANKING AND EXCHANGE REGULATIONS—Continued

| Country | Banking authority as applied to foreign banks | | | | | | | | |
|-----------|---|--|---|--|--|---|---|---|--|
| | Investment re- quirements in national debt instruments | Deposit balance requirements in treasury, central bank, or clearing banks | Investment re- quirements in development banks, etc. | Prohibitions on types of loans ex- tended by foreign banks not appli- cable to domestic banks | Application of foreign ex- change restric- tions on foreign banks | Reserve re- quirements or liquidity restrictions | Lending restrictions | Informal agree- ments on deposit and loan interest rate limits | Banking regula- tions (1), (2), (3) equally en- forced on foreign and domestic banks |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) |
| Nicaragua | None | No less than 10 percent nor over 50 percent of the de- posits, in national currency, at the discretion of the Central Bank. The Central Bank may require the same for deposits in foreign currency in percentages of from 10 to 100 percent. | None | None | No | Yes, 10 percent of net profits constitutes capital reserve. | Yes. Cannot exceed 95 percent capi- tal and re- serves. Priority in loans to the agricultural sector. | No. Interest rate fixed by Central Bank of Nicaragua. | Yes. |
| Panama | do | None | do | do | There are no exchange restrictions. As applied to domestic banks. | Yes | Yes | None in effect. | Yes. |
| Peru | do | Legal cash reserves must be deposited with Central Bank. | 60,000,000 soles | do | do | Yes | Yes | No informal agreements. All banks ob- serve legal ceiling for deposit and loan interest rates. | Yes. |
| Venezuela | No official requirement. | At least 2½ of cash reserves must be held in Central Bank. | None | None. Foreign banks cannot issue any kind of bonds. | Foreign banks are not per- mitted to sell foreign cur- rency ac- quired, directly or indirectly, in the Central Bank of Venezuela. | Yes | Yes | Yes | Yes, if existing foreign banks keep only 20 percent of the capital of the Venezuelan affiliate. If more than 20 percent of capital is foreign- owned, they have re- strictions. |

WESTERN
HEMISPHERE—Con.

| | | | | | | | | | |
|-------------|--|------|------|------|--|---|--|--|------|
| Cameroon | None | do | do | None | As applied to domestic banks excepting French franc zone countries. | Yes. Proper relationships between banks' funds and commitments, liquid assets and short-term obligations. | Yes, same as for domestic banks. Proportion of loans to own funds is regulated. | Any interbank agreement requires the prior consent of the Ministry of Finance. | Yes. |
| Egypt | do | do | do | do | None | Yes | No restrictions. | No such agreement exists. | Yes. |
| Iran | do | do | do | do | As applied to domestic banks. | Yes | Yes | Yes | Yes. |
| Israel | As a general rule, none. But if the bank has saving deposits, investment in the obligations of the State of Israel is required to the extent specified in the reserve regulations. | do | do | do | Yes | The reserve regulations impose requirements in Israeli currency against certain loans to the public. | In general, there are no informal agreements on deposit and loan interest rates. There are limits in loan interest rates in 2 areas: (1) loans linked to the cost-of-living index are subject, by law, to a maximum rate of interest; (2) loans for export promotion and other special purposes are granted at preferential rates, with the support of the Bank of Israel. | Rates are set by decree. | Yes. |
| Ivory Coast | None | None | None | None | As applied to domestic banks except for French franc zone countries. | Relationship between liquid assets and short-term liabilities must not be less than 75 percent. | Yes, the same as for domestic banks—75 percent of registered capital. | Rates are set by decree. | Yes. |

See footnotes at end of table.

TABLE 11.—BANKING AND EXCHANGE REGULATIONS—Continued

| Country | Banking authority as applied to foreign banks | | | |
|-------------------------------|---|--|---|---|
| | (1) | (2) | (3) | (4) |
| AFRICA, MIDDLE EAST—Continued | | | | |
| Lebanon..... | None | Not enforced at present but Central Bank is authorized to impose reserve requirements. (Maximum of 25 percent on demand deposits and 15 percent on time deposits.) | Investment requirements in clearing banks, or banks, etc. | Prohibitions on types of loans extended by foreign banks not applicable to domestic banks |
| | | Not enforced at present but Central Bank is authorized to impose reserve requirements. (Maximum of 25 percent on demand deposits and 15 percent on time deposits.) | Investment requirements in clearing banks, or banks, etc. | Prohibitions on types of loans extended by foreign banks not applicable to domestic banks |
| | None | Not enforced at present but Central Bank is authorized to impose reserve requirements. (Maximum of 25 percent on demand deposits and 15 percent on time deposits.) | Investment requirements in clearing banks, or banks, etc. | Prohibitions on types of loans extended by foreign banks not applicable to domestic banks |
| Liberia..... | An amount equal to 2 percent of the demand and time deposits and other liabilities may be required to be so invested. | Required reserves shall not exceed 15 percent of deposits and similar liabilities, either in cash holdings or in Central Bank deposits, or both in proportion as the Central Bank may require. | Investment requirements in clearing banks, or banks, etc. | Prohibitions on types of loans extended by foreign banks not applicable to domestic banks |
| | Not less than 25 percent in Central Bank. | Not required. | Not required. | Not required. |
| Morocco..... | Not required. | Not required. | Not required. | Not required. |

| Nigeria | None | May from time to time be prescribed by the Central Bank. | None | do | As applied to domestic banks. | must be deposited in the Central Bank. As prescribed by the Central Bank. | A limit of 33 1/4 percent of the sum of the paid-up capital and statutory reserves of a bank to any one person. | The interest rate structure is subject to the approval of the Central Bank and is linked to its minimum rediscount rate. | Yes. |
|--------------|------|---|------|----|-------------------------------|---|---|--|------|
| Saudi Arabia | do | The deposit liabilities of a bank shall not exceed 15 times its reserves and paid-up or vested capital. Every bank shall maintain with the Saudi Arabian Monetary Agency a statutory deposit of a sum not less than 15 percent of all its deposit liabilities at all times. In addition to the statutory deposit, every bank must maintain a liquid reserve of not less than 15 percent of its deposit liabilities. Such reserve must be in gold, cash, or assets capable of being converted into cash within a period of 20 to 30 days. Reserve requirement must be met. | do | do | do | Yes | Yes | None in effect. | Yes. |
| Tunisia | do | Reserve requirement must be met. | do | do | do | Yes | Yes | Yes, but within the limits fixed by the law. | Yes. |
| Turkey | do | It is compulsory to set aside each year 1/50 of the net profits as a general reserve fund, until it reaches 1% of the basic capital and to set aside 5 percent of the yearly profits as provisions for possible future losses, until the total of the provisions set aside are equal to the paid-up capital. Banks shall invest this reserve fund in internal State loan bonds or in bonds of the Amortization and Credit Fund. | do | do | do | Yes | Yes | Yes, but banks may not in any manner or form collect interest in excess of the limits and rates fixed by law. | Yes. |

See footnotes at end of table.

TABLE II.—BANKING AND EXCHANGE REGULATIONS—Continued

| Country | Banking authority as applied to foreign banks | | | | | | | |
|---------|---|---|--|---|--|--|---------------------------------|---|
| | (1) | (2) | (3) | (4) | Banking regulations (1), (2), (3) equally enforced on foreign and domestic banks | | | |
| | Investment requirements in national debt instruments | Deposit balance requirements in treasury, central bank, or clearing banks | Investment requirements in development banks, etc. | Prohibitions on types of loans extended by foreign banks not applicable to domestic banks | Application of foreign exchange restrictions on foreign banks | Reserve requirements or liquidity restrictions | Lending restrictions | Informal agreements on deposit and loan interest rate limits |
| | None | Cash reserve must be met | None | None | As applied to domestic banks | Yes | None | Interest rate as a return on deposits, and bank credits. |
| | do | The Banque Nationale (Central Bank) has authority to impose requirements. | do | do | As applicable to domestic banks. Restrictions can be imposed by the Banque Nationale (Central Bank). | Reserve requirements are 10 percent of the registered capital. | The same as for domestic banks. | Interest rates can be set by the Banque Nationale (Central Bank). |
| | do | Provided by law and agreements between the National Bank and the banking industry, requirements vary from time to time. The present deposit balance for demand deposits is 9 percent, for deposits of less than 12 mo, 7 percent, and long term, 6 percent. Deposit balance must consist either of cash at the National Bank or treasury bonds. | do | do | As applied to domestic banks. | Yes | Yes | Yes |
| | Regulations suspended in 1962. | In respect to the deposit requirements as a policy imposed by the Banking Commission. | do | do | do | Yes | Yes | Yes |
| | None. The obligation to buy treasury bonds was abolished in 1969. | None | do | do | do | Yes | Yes | Yes |

TABLE II.—BANKING AND EXCHANGE REGULATIONS—Continued

| Country | Banking authority as applied to foreign banks | | | | | | | | |
|-------------|--|---|---|--|---|---|---|---|---|
| | Investment re- quirements in national debt instruments | Deposit balance requirements in treasury, central bank, or clearing banks | Investment re- quirements in development banks, etc. | Prohibitions on types of loans ex- tended by foreign banks not applic- able to domestic banks | Application of foreign ex- change restric- tions on foreign banks | Reserve re- quirements or liquidity restrictions | Lending restrictions | Informal agree- ments on deposit and loan interest rate limits | Banking regula- tions (1), (2), (3) equally en- forced on foreign and domestic banks |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) |
| ASIA | | | | | | | | | |
| Australia | Yes | Yes | None | None | As applied to local banks. | Not applicable | Not applicable | Not applicable | Not applicable. |
| Bangladesh | 20 percent of total liabilities in approved securities. | Cash reserve must be kept in State Bank. | do | do | do | Yes | Yes | Effectively applied. | Yes. |
| Hong Kong | None | None | do | do | No restrictions. | Yes | Yes | Yes | Yes. |
| India | 25 percent of total deposits are required to be invested in government securities. | 3 percent of total deposits must be deposited with Central Bank. | do | do | As applied to domestic banks. | Yes | Yes | Effectively applied. | Yes. |
| Japan | None | Deposits must be made at the Central Bank. At present, the rates range from 0.25 percent for time deposits and 1.5 percent to 4.25 percent for demand de- posits. | do | do | do | Yes | Yes | No | Yes. |
| Malaysia | Liquidity require- ments on all banks have the effect of forcing banks to pur- chase govern- ment securities up to a certain level of their deposit liabil- ities. | Yes, with Central Bank. | do | do | None | Yes | Selective credit policies to encourage lending to "bumiputras" (indigenous Malays). | None | Yes. |
| Pakistan | 30 percent of total liabilities in approved securities. | Cash reserves must be kept in State Bank. | do | do | As applied to domestic banks. | Yes | Yes | Effectively applied. | Generally yes. |
| Philippines | No official requirement. | Required reserves to be deposited in the Central Bank. | do | do | do | Yes | Yes. Under sec. 31 of the General Banking Act. | All banks observe the legal interest rates. | Yes. |

| Republic of China (Taiwan). | None. The nominal requirement for investment in patriotic bonds for import tax is no longer in effect. [See footnote 10 in the old version.] | None. | Reserve requirements must be met. | Foreign banks operating in domestic market are subject to minimum cash reserve requirement to be deposited with the MAS. | do. | do. | No exchange restrictions for foreign banks dealing in ACU market; restrictions for transaction involving Singapore residents. | For banks operating in the domestic market only, not for bank operating in the ACU market. | None. | None. | Yes. | Yes. |
|--------------------------------|--|-------|---|--|-----|-----|---|--|-------|--|------|------|
| Singapore. | None. | None. | | | | | | | | | | |
| South Korea. | No official requirement. | | Reserve must be deposited at the Central Bank at a certain rate (currently the percentage rate is 17 percent for time deposits and 24 percent for demand deposits) as determined by monetary board. | | do. | do. | As applied to domestic banks. | Yes. | Yes. | Not informal. All rates are subject to the maximum set by monetary board; in practice, there is limits interbank agreement which must be followed by domestic and foreign banks. | | Yes. |
| Thailand. | None, but government securities may be counted toward cash reserve, currently prescribed at 6 percent of bank's total deposits. | | 6 percent of total deposits must be with the Central Bank. | | do. | do. | do. | Yes. | Yes. | None. | | Yes. |

¹ Assigned capital is such portion of the capital of a foreign bank, consisting of unencumbered assets specifically assigned by the bank to the financing of its Jamaican operations.

² Foreign banks are expected to utilize dividends which they are not permitted to transfer out of Greece for long-term loans under terms set by the Currency Committee.

³ Government occasionally uses moral suasion over Italian banks to purchase debt instruments. This probably could apply to U.S. banks.

⁴ To the extent that banking authority regulations are disproportionately directed toward foreign business, foreign banks, tending to have large foreign businesses, suffer to a similar degree.

⁵ From time to time the Bank of England will issue voluntary guidance to all banks on sterling loans.

and
municipalities.AFRICA AND
MIDDLE EAST

| | | | | | | | |
|----------------------|-----|-----|-----|--|----------------|---------------------------|--|
| Cameroon | Yes | Yes | Yes | No trust law as such | Yes | Not for commercial banks | Equally available to foreign and domestic banks |
| Egypt | Yes | Yes | Yes | No trust law as such | Yes | Not for commercial banks | Do. |
| Iran | Yes | Yes | Yes | No trust law as such | Yes | Not for commercial banks | No distinction between foreign and domestic banks. |
| Israel | Yes | Yes | Yes | Yes | Yes | Yes | Yes. |
| Ivory Coast | Yes | Yes | Yes | Yes | Yes | Yes | Equally available to foreign and domestic banks. |
| Lebanon | Yes | Yes | Yes | Yes; but there is no trust law as such | Yes | Yes | Do. |
| Liberia | Yes | Yes | Yes | Yes | Not prohibited | Yes | Do. |
| Morocco | Yes | Yes | Yes | None | Yes | Not prohibited | Do. |
| Nigeria | Yes | Yes | Yes | None | Yes | Yes | Do. |
| Saudi Arabia | Yes | Yes | Yes | Yes, but there is no trust law as such | Yes | Yes | Do. |
| Tunisia | Yes | Yes | Yes | There is no trust law as such | Yes | Not for commercial banks | Do. |
| Turkey | Yes | Yes | Yes | No trust law as such for banks | Yes | Used for commercial banks | Do. |
| United Arab Emirates | Yes | Yes | Yes | Yes, but there is no trust law as such | Yes | Yes | Do. |
| Zaire | Yes | Yes | Yes | Yes | Yes | Yes | Do. |

EUROPE

| | | | | | | | |
|----------------|--|------------------|---|--|-----|---|--|
| Austria | Yes | Yes | No; however, a contract to that effect is possible | No. Banks emit and commercialize their own debentures. | Yes | Restricted. (Securities cannot be held longer than 6 months.) | Equally available to foreign and domestic banks with one exception. Institut de Reescompte et de Garantie does not give foreign lines for overdrafts to foreign banks. |
| Belgium | Yes | Yes | Yes; concept of trusteeship not provided by Belgian law. | Yes | Yes | Yes | Equally available to foreign and domestic banks. |
| France | Yes | Yes | No; trusteeship does not exist under French law. | Yes | Yes | Yes | No restrictions applicable to U.S. banks per se. |
| Germany | Yes ¹ | Yes | Yes; within framework of German customs. | Yes | Yes | Yes | Equally available to foreign and domestic banks except rediscount facilities which are not normally available to foreign banks. |
| Greece | Yes | Yes | Yes | Yes | Yes | Yes | Equally available to domestic and foreign banks. |
| Italy | Yes | Yes | Yes; but not by commercial banks | Yes | Yes | Yes | Yes; at central bank (Clearing Bank Association does not accept new members). |
| Netherlands | Yes | Yes ² | Yes | Yes | Yes | Yes | Equally available to domestic and foreign banks. |
| Spain | Yes | Yes | Yes | Yes | Yes | Yes | Do. |
| Sweden | Foreign banks are not permitted to establish branches or subsidiaries. | Yes | Yes | Yes | Yes | Yes | Yes, exactly the same but "lender of last resort" role of Bank of England applies only to discount houses. |
| Switzerland | Yes | Yes | Yes | Yes | Yes | Yes | |
| United Kingdom | Yes | Yes | Yes, but branches have limited powers while subsidiaries have full power. | Yes | Yes | Yes | |

See footnotes at end of table.

TABLE III.—OPERATIONAL REGULATIONS AND PRACTICES—Continued

| | Authorized banking functions as applicable to foreign banks | | | | | Underwriting | Foreign bank access to services of central banks, clearing banks, deposit insurance, etc. (to extent available) |
|----------------------------|---|---|----------------------|---|------------|---|---|
| | Demand deposit solicitation from nationals | Time or savings deposit solicitation from nationals | Lending to nationals | Trust activities | | | |
| ASIA | | | | | | | |
| Australia | Not applicable. | Not applicable. | Yes | Not applicable. | Yes | Not applicable. | |
| Bangladesh | Yes | Yes | Yes | Yes | Yes | Equally available to foreign and domestic banks. | |
| Hong Kong | Yes | Yes | Yes | Yes | No | Equally available to all banks. | |
| India | Yes | Yes | Yes | Yes | Yes | Equally available to foreign and domestic banks. | |
| Japan | Yes | Yes | Yes | Restricted | Restricted | Do. | |
| Malaysia | Yes | Yes | Yes | No | No | Do. | |
| Pakistan | Yes | Yes | Yes | Yes, but there is no trust law as such. | Yes | Do. | |
| Philippines | Yes | Yes | Yes | Yes | No | Equally available to foreign and domestic banks (sec. 78, Central Banking Act). | |
| Republic of China [Taiwan] | No | Yes | Yes | No | No | Equally available to foreign and domestic banks. | |
| Singapore | Yes | Yes | Yes | No | No | Do. | |
| South Korea | Yes | Yes | Yes | Restricted | Restricted | These are generally available to foreign banks with certain exceptions. Discount and other finance facilities are not generally available to foreign banks as a matter of policy. | |
| Thailand | Yes | Yes | Yes | Yes | Yes | Equally available to foreign and domestic banks. | |

TABLE III.—OPERATIONAL REGULATIONS AND PRACTICES—Continued

| | Examination of foreign banks by banking authority | Foreign bank access to courts | Provisions for prior claim on assets by nationals | Requirements on number of nationals employed | Nonbank reports or regulations required by banks as foreign owned or controlled entities | Most restrictive regulations imposed on U.S. banks |
|---------------------|---|-------------------------------|---|---|--|--|
| WESTERN HEMISPHERE | | | | | | |
| Argentina..... | On a regular basis and at any time. | Same basis as domestic banks. | Yes..... | Yes, to be determined by pertinent authority. | None..... | (1) Initial high capital requirement. (2) Difficulty in establishing additional branches especially in interior. |
| Bahamas..... | Yes..... | Yes, same as domestic banks. | None..... | None..... | do..... | Necessity of having a principal office in the Bahamas and an officer and alternate named as authorized bank agent. |
| Brazil..... | On a regular basis and at any time. | Same basis as domestic banks. | None; local creditors whether national or foreign, have preference. | Two-thirds of total salary expense must be paid to nationals or certain legal equivalents of nationals. | do..... | (1) Branch expansion by foreign banks. (2) Restrictions on profit remittances. |
| Cameroon..... | On a regular basis, by the Banking Control Commission of the Conseil National de Crédit (National Council of Credit) supervised by the Ministry of Finance. | do..... | None..... | Management personnel must be of Cameroonian nationality residing in the country. | do..... | Foreign banks are permitted to operate if (a) original names are retained; (b) if information is supplied on operation with parents firms and foreign countries; and (c) foreign participation accounts for more than ½ of registered capital. Foreign exchange regulations which are not applicable to French franc zone countries. |
| Canada..... | No less often than once a year for all the affairs of a bank, including foreign assets or liabilities. | do..... | do..... | None..... | do..... | Legislation limiting ownership to 10 percent interest by any group, whether foreign or domestic. Total foreign ownership is limited to 25 percent. |
| Cayman Islands..... | Yes..... | Yes..... | No..... | No..... | do..... | License cannot be obtained by bank with head office or registered office outside Caymans unless bank has notified the administrator it has a principal office in Cayman Islands, an officer designated as its authorized agent in the Islands, and a substitute for him when authorized agent is absent or unable to perform his duties. |
| Chile..... | On a regular basis..... | Same basis as domestic banks. | None..... | Percentage of salaries paid to foreigners is restricted | None; in relation to office of representation. | Only offices of representation or State-owned foreign banks presently permitted. See footnote 2, Table I. |

See footnotes at end of table.

TABL III.—OPERATIONAL REGULATIONS AND PRACTICES—Continued

| | Examination of foreign banks by banking authority | Foreign bank access To courts | Provisions for prior claim on assets by nationals | Requirements on number of nationals employed | Nonbank reports or regulations required by banks as foreign owned or controlled entities | Most restrictive regulations imposed on U.S. banks |
|------------------------------|--|--|---|--|--|--|
| WESTERN HEMISPHERE—Continued | | | | | | |
| Colombia | On a regular basis | None | None | None | None | Subject to the Cartagena agreement of 1969. |
| Costa Rica | Yes, twice a year | Same basis as domestic banks. | do | No | None (only the registration required for all Costa Rican corporations under the commercial code). | None. |
| Egypt | On a regular basis | Same access enjoyed by domestic banks. | do | Not determined | Not for commercial banks. | None. |
| Guatemala | At least twice a year without notice. | Same as nationals. | Yes | None | No | Not applicable. |
| Honduras | At least once a year or more often if deemed necessary. | Same basis as domestic banks. | None | No percentage required. Work permits to foreign workers granted on basis of reciprocity. | None | None regarded as discriminatory or unduly restrictive. |
| Iran | Yes; at discretion of central bank. | Same as domestic. | do | Not specified | In compliance with foreign employment regulation. | None. |
| Israel | Yes | Same basis as domestic banks. | No | No | The companies ordinance requires that a foreign bank registered to do business in Israel file a copy of its annual balance sheet with the companies registrar. | No special restrictions applied to U.S. banks per se. |
| Ivory Coast | On a regular basis by the banking control commission; under the authority of the ministry of economic and financial affairs. | do | None | None | None | Foreign banks are required to have a distinct bookkeeping system for local operations. Foreign exchange regulations which are not applicable to French franc zone countries. |
| Jamaica | Yes | None | None | do | None | License cannot be obtained by bank with head office outside Jamaica unless bank has principal office in Jamaica and 1 office designated as bank's authorized agent in Jamaica or his substitute. |

| | | | | | | |
|--------------|---|-------------------------------|-----|--|--|---|
| Lebanon | None. (Banking secrecy law 1956.) Independent audits are submitted to central bank. | do | do | In principle, 100 percent of staff must be Lebanese, but certain percentage of administrative officers may be foreign. Ratio of Lebanese employees is usually 50:1. | do | (1) Present regulation confining entry into Lebanese market to purchase into existing facility. (2) Impossibility of having more than 1 branch or office. (3) Requirement pertaining to employment of nationals are not discriminatory against foreign banks. |
| Liberia | Audit provisions the same as for domestic banks. | do | do | None noted | None noted | None. Restrictions are not discriminatory against foreign banks. |
| Mexico | On a regular basis. | do | do | At least 90 percent of officers and employees must be Mexican. Executive discretion on prohibiting entry of foreigners can effectively reduce this ratio. (Foreign nationals can only be employed if it is demonstrated that local personnel are unable to perform functions.) | None | Law restricting any form of participation in a financial institution after December 1966. |
| Morocco | Yes. | Open | do | None | do | None. |
| Nicaragua | Annual, External auditing. | Same basis as domestic banks. | do | 75 percent of the employees must be Nicaraguans or foreigners with 10 years of residence. Limitation does not include managers, administrators, superintendents, and other technicians. | The capital of the foreign branch must be registered according to the Foreign Investments Law. | None regarded as discriminatory or unduly restrictive (institutions for loans and savings in housing cannot be constituted abroad). |
| Nigeria | Examiners from central bank to examine all banks periodically. | do | do | None, but expatriates are subject to a quota system imposed by immigration authorities. | None. | Same as domestic banks. |
| Panama | Yes, on a regular basis. | do | do | Every employer shall maintain at least 90 percent Panamanian workers and may maintain aliens specialized of technical personnel at no more than 15 percent of all personnel. Percentages of wages cannot be less than the above percentages (labor code, cabinet decree 252, Dec. 30, 1971). | do | None regarded as discriminatory or unduly restrictive. |
| Peru | On a regular basis and at any time. | do | Yes | High percentage of staff must be nationals: 2/3. | do | (1) High cash reserve requirement. (2) Nonaccess to savings market. |
| Saudi Arabia | On a regular basis. | do | do | None. | do | There are credit restrictions imposed on foreign and domestic banks, but there are no restrictions on U.S. banks per se. |
| Tunisia | do | do | do | Not determined. | Mostly on report of foreign nationals employed. | None. |

See footnotes at end of table.

TABLE III.—OPERATIONAL REGULATIONS AND PRACTICES—Continued

| | Examination of foreign banks by banking authority | Foreign bank access to courts | Provision for prior claim on assets by nationals | Requirements on number of nationals employed | Nonbank reports or regulations required by banks as foreign owned or controlled entities | Most restrictive regulations imposed on U.S. banks |
|-------------------------------------|--|-------------------------------|--|---|--|---|
| WESTERN HEMISPHERE—Continued | | | | | | |
| Turkey | Examination of banks by sworn bank auditors attached to the Ministry of Finance. On a regular basis. On a regular basis and at any time. | Same basic as domestic banks. | Yes | Experts, experienced personnel may be used. | None | No special restrictions applicable to U.S. banks. |
| United Arab Emirates | On a regular basis. | do. | do. | None. | do. | None. |
| Venezuela | On a regular basis and at any time. | do. | do. | At least 75 percent of officers and staff must be Venezuelan. Exceptions can be made (with approval) if qualified personnel is not available. | Branches are considered as domiciled in Venezuela and must comply with requirement of the commercial code. | (1) Law restricting any form of participation to a financial institution after 1975. (2) Prohibition to expand capital and offices to existing banks. |
| Zaire | On a regular basis by expert auditors certified and supervised by the Banque Nationale (Central Bank). | do. | do. | None. | None | Must have a distinct bookkeeping system in the country. Foreign exchange regulations. |
| EUROPE | | | | | | |
| Austria | On a regular basis, or for domestic banks, by the Ministry of Finance and the national bank. | do. | None | None. Employment permitted prior to employment. | do. | Discretion in licensing. Exchange controls under foreign currency law. |
| Belgium | On a regular basis. | do. | do. | None; but citizens of some foreign countries must have prior approval of the Ministry of Labor and Employment. | do. | No major restrictions on U.S. Banks per se. ¹ |
| France | Must maintain a special accounting of operations effected in France. Same audit and inspection as imposed on French banks. | do. | do. | Percentage of French nationals is established by proper authorities. | do. | No special restrictions applicable to U.S. banks. ² |
| Germany | On a regular basis. | do. | do. | None. | do. | No restrictions applicable to U.S. banks per se. ³ |

| | | | | | | |
|----------------|--|-------------------------------|----|---|----|---|
| Greece | do | do | do | No known restriction but aliens must obtain residence and work permits which are generally granted only to those who have skills not readily available in Greece. None; but non-Italian staff members must obtain work permits. | do | (1) Lack of rediscount facilities. (2) Restrictions on remittance of dividends. ⁷ |
| Italy | Carried out on a regular basis by the Bank of Italy, which under the bank legislation may also make extraordinary examinations of domestic or foreign banks. | do | do | do | do | Obtaining of license but with favorable treatment for the United States. |
| Netherlands | No fixed time schedule | do | do | None; but foreign nationals require employment permit which is readily obtainable. | do | No special restrictions applicable to U.S. banks. |
| Spain | On a regular basis | do | do | Not determined | do | No U.S. bank operates in Spain through branches or subsidiaries. |
| Sweden | Foreign banks are not permitted to establish branches or affiliates. | do | do | One of the managers must be Swiss. Working permits for foreigners are strictly controlled and issued only upon demonstration that functions cannot reasonably be fulfilled by Swiss nationals. | do | (1) Informal but effective competitive restrictions imposed by local banks. (2) Working permits. |
| Switzerland | Examination by outsiders is contrary to banking secrecy law. Bank records are regularly examined by resident auditor approved by Federal Banking Commission. | do | do | do | do | |
| United Kingdom | None, but financial statements are submitted monthly. | do | do | None directly but a United Kingdom national should be employed whenever possible. | do | No restrictions applied to U.S. banks per se. ⁸ |
| ASIA | | | | | | |
| Australia | Not applicable | do | do | None | do | U.S. banks have not been permitted to establish banking offices including branches. |
| Bangladesh | On a regular basis | Similar to domestic banks. | do | Policy favors employing local nationals. ⁹ | do | Capital requirements for banks incorporated outside Bangladesh. |
| Hong Kong | Yes, by the commissioner of banking. | Same basis as domestic banks. | do | None | do | None in particular directed toward U.S. banks. |

See footnotes at end of table.

TABLE III.—OPERATIONAL REGULATIONS AND PRACTICES—Continued

| | Examination of foreign banks by banking authority | Foreign bank access to courts | Provisions for prior claim on assets by nationals | Requirements on number of nationals employed | Nonbank reports or regulations required by banks as foreign owned or controlled entities | Most restrictive regulations imposed on U.S. banks |
|-----------------------|---|-------------------------------|--|---|--|---|
| ASIA—Continued | | | | | | |
| India | On a regular basis. | Same as domestic banks. | None. | No legal requirements but foreign banks are encouraged to keep expatriate staff at minimum levels. | A few miscellaneous reports are required in connection with foreign exchange obligations and expatriate personnel. | (1) Exchange control regulations. (2) Branching policy which tends to limit foreign banks to major cities and to favor British banks. (3) Reluctance on the part of reserve bank officials to give timely and definitive interpretations of various statutes, regulations, and policies pertaining to banking procedures. Virtual impossibility of obtaining approval for additional offices. Present policy, applied to all foreign banks, of not granting any banking licenses. |
| Japan | do. | Same basis as domestic banks. | do. | None. | None. | |
| Malaysia | Yes, by the central bank | do. | None, but deposit liabilities in Malaysia have prior claim over all other liabilities of the bank. | There is the policy that companies are to employ a certain proportion of bumiputras or indigenous Malays, at present roughly 30 percent. This applies at all levels of employment and not just to the overall company figure, and in accordance with official policy of assisting the indigenous Malays to help reduce the racial imbalance in the economy. | | |
| Pakistan | On a regular basis. | do. | None. | Pakistanization policy requires minimum percentage of country's nationals. | Report on foreign nationals employed. | (1) Restrictions on the maximum rates of interest that may be paid on time deposits which foreign banks observe and which is violated by domestic banks. (2) System of exchange control. (3) Capital requirements for banks incorporated outside Pakistan. |

| Philippines | Once a year or as deemed expedient. | do | Yes, (sec. 19, General Banking Act). | None | do | None | None to U.S. banks per se. |
|-----------------------------|-------------------------------------|----|---|------|----|---|---|
| Republic of China [Taiwan]. | On a regular basis. | do | None | do | do | None, generally. Investment in locally organized affiliate must be approved per foreign investment law. | Restricted to one office. |
| Singapore | Yes, by the MAS. | do | Where a bank becomes unable to meet its obligations or becomes insolvent, the assets of the bank in Singapore are to be available to meet all deposit liabilities of the bank in Singapore, and such deposit liabilities are to have priority over all other liabilities of the bank. | do | do | None | Exchange restrictions, applied to all foreign banks in transactions with Singapore residents. |
| South Korea | On a regular basis. | do | In the event of liquidation or bankruptcy, assets in Korea of a foreign bank are subject to prior claim by Korean nationals. | do | do | do | No special restrictions applicable to U.S. banks. |
| Thailand | Yes, by Bank of Thailand. | do | None | do | do | do | Prohibition on branch banking by foreign banks. |

¹ Although there are no restrictions on a foreign bank carrying demand and time accounts for German nationals, all banks must adhere to certain orders and agreements including an agreement on competitive practices.

² Close and restrictive regulation by governmental authorities might be considered the most difficult restriction but this close surveillance applies on a "big bank-little bank basis" rather than "foreign-native dimension."

³ Although underwriting is open to foreign banks, engaging in this activity is at the risk of incurring the enmity of local competitors with potentially adverse results.

⁴ Recent ceiling imposed on increased extension of total credit-applicable to all Belgian and non-Belgian banks—is the most restrictive regulation at the present time.

⁵ Establishing an investment bank is virtually impossible. Many banking operations common in the United States cannot be currently carried out in France, e.g., mortgage financing, factoring trust operations, estate administration, etc.

⁶ Close and restrictive regulation by governmental authorities might be considered the most difficult restriction but this close surveillance applies on a big bank-little bank basis rather than foreign-native dimension.

⁷ Remittance of dividends currently limited to 3 percent (presumably of capital) and subject to approval by the currency committee.

⁸ Deposit solicitation and lending to nationals is subject to license from the central bank which is readily given.

⁹ Information obtained from the Embassy of Bangladesh.

APPENDIX C
DETAILED INFORMATION BY COUNTRY

APPENDIX C

DETAILED INFORMATION

ARGENTINA

An outline of the more detailed information needed follows:

1. Any deposit restrictions—re:

(a) Limits on deposits of resident nationals—domestic currency vs foreign currencies, all banks, domestic banks vs foreign banks.

Only national currency, except by permit from Central Bank. Governments, national or foreign also exempted.

(b) Limits on inflows of funds from abroad—all banks, foreign as opposed to domestic.

Permit from Central Bank in each case.

(c) Foreign bank access to savings deposits.

By permit.

(d) Code of fair competition—impact on foreign banks of agreements restricting solicitation of deposits of other banks.

2. Reserve requirements—all banks, foreign vs domestic:

(a) Direct reserve requirements—all banks, foreign vs domestic—requirement that deposits be kept with central bank or government agencies.

All banks. 15 percent of assets to be increased annually with up to 20 percent of the profits.

(b) "Special deposits" as determined by Central Bank in each case.

(c) Secondary reserves.

(d) Liquidity ratios as determined by Central Bank in each case.

3. Priority investments—government securities, housing, development banks, long-term loans, etc.—all banks, foreign vs. domestic.

Livestock, industry, commerce, housing, services, and development (non-traditional industries).

4. Credit ceilings—either re domestic inflation or balance of payments.

Yes, ceilings. For both imports and exports. Periodical revisions.

5. Loan restrictions re classes of borrowers or uses of funds—also structural restrictions (such as prohibitions against underwriting)—all banks, foreign vs. domestic.

Regular commercial banks may not operate on mortgages. Exceptions contemplated. Loan ceilings to be determined by Central Bank.

6. Interest rate limits—all banks, foreign vs domestic.

All banks. Loans to livestock and industry seven percent; others nine percent. Savings eight percent. Annual. Maximum on general loans 15 percent.

7. Exchange controls—all banks, foreign vs. domestic.

Yes, all banks.

8. Central bank credit—access and cost—all banks, foreign vs. domestic. If there is nominal access, is there nevertheless discrimination?

9. Bank examination—all banks, foreign vs. domestic. What is the interval and nature of examinations?

As needed and determined by Central Bank. Informative, partial or general, inspection of documents.

10. Cartel restrictions—against particular operations? Need for cooperation? Big vs. little banks; foreign vs. domestic.

All banks. May not own shares of other banks or commercial enterprises.

11. Evenhandedness of application of regulation overall.

AUSTRALIA*

It has been the policy of the Australian Government since the Second World War not to allow foreign banks to set up banking businesses in Australia. For that reason it has not been possible to find any information about the restrictions on foreigners setting up banks in Australia. Three foreign banks were set up in Australia before the War; the Bank of China, the Bank of New Zealand, and the Banque Nationale de Paris. These banks come within Federal control although the Reserve Bank may treat them differently since they do not operate nationwide with a number of branches as do the other trading banks. The answers to these additional questions are based on the legislation and policy which exists in relation to banks operating in Australia today. For this reason there may be discrepancies between the answers here and those on the schedule.

1. Any Deposit Restrictions

There are no restrictions on deposits as such. However, the Reserve Bank in the course of its national monetary policy has tended to place strong emphasis on the restraint of bank lending and this has resulted in the slow growth in trading bank deposits.

In March 1969, trading banks were permitted for the first time to issue negotiable certificates of deposit. The minimum investment requirement is \$A50,000 with maturities between 3 months and 2 years. The banks are free to set their own rate of interest up to the maximum set by the Reserve Bank. This has enabled the trading banks to compete with the outside money market and has helped them to restore a greater share of financing to the trading bank system. At the same time, however, this has enlarged the area which is open to direct control by the Reserve Bank.

The Banking Act lays a duty on the Bank to exercise its powers and functions for the protection of the depositors of trading banks.¹ Where a bank considers that it is likely to become unable to meet its obligations to depositors or is about to suspend payment, it is required to inform the Reserve Bank without delay.²

*Prepared by (Mrs.) Audrey E. Glover, Legal Specialist, American-British Law Division, Law Library, Library of Congress, October 1975.

¹ Banking Act 1959-74, § 12.

² *Id.*, § 14.

2. *Reserve Requirements*

(a) Trading banks are required to hold Statutory Reserve Deposits with the Reserve Bank.³

The Reserve Bank determines the amount that each bank has to have on deposit in its Statutory Reserve Deposit account. This amount is expressed as a percentage of the bank's current level of Australian deposits (the S.R.D. ratio). These assets are in the nature of a frozen account on which the banks cannot draw, their size being increased or reduced by a decision of the Reserve Bank. The S.R.D. ratio is uniform for each of the major trading banks and can be increased at 1 day's notice provided that it does not exceed 25% of the total deposits. The Reserve Bank pays an interest on the deposits at the rate of $\frac{3}{4}\%$. Deposits in the Statutory Reserve Deposit have to be in multiples of \$A1,000.⁴

(d) In 1956, the Reserve Bank persuaded the trading banks to agree to maintain ratio of their deposit liabilities in liquid assets and government securities (L.G.S.—liquid assets plus government securities). Liquid assets are defined as cash with the Reserve Bank, notes and coin, Treasury bills and notes and other Australian Government securities. The agreement is that each trading bank will not allow its ratio of L.G.S. assets and deposits to fall below 18% which is the agreed minimum and if this is likely to happen they have to borrow from the Reserve Bank. For its part the Reserve Bank undertakes to administer the S.R.D. policy so that if bank lending is in accord with Reserve Bank policy, the trading banks generally will be able to maintain their L.G.S. ratios above the agreed minimum. The agreement is not statutory but the banks abide by it.

3. *Priority Investments*

There are no requirements with regard to priority investment for trading banks although there are for saving banks.⁵

4. *Credit Ceilings*

The minimum agreed L.G.S. ratio under which banks operate acts as a credit ceiling since if the banks make overdrafts available to their customers on a larger scale their deposit liabilities would rise rapidly and their cash ratios and their L.G.S. ratios would decline.

5. *Loan Restrictions*

In addition to the influence it exercises over bank lending through its regulation of bank liquidity the Reserve Bank has the power to determine the lending policies followed by trading banks and to give directions to them concerning the classes of purposes for which advances may or may not be made. The Reserve Bank is thus able to influence both the volume of bank advances and its distribution between industries or purposes.

The Reserve Bank also affects the ability of the trading banks to lend money since it can vary the percentage which the banks keep in Statutory Reserve Deposit and this curtails their powers to lend. It may mean that they are prevented from increasing their loans or that they have to slow down their actual rate of lending.

³ *Id.* §§ 19 and 20.

⁴ *Id.* § 27.

⁵ Saving banks are required to have 60% of their deposits invested in the following: deposits with the Reserve Bank, deposits with banks, Treasury bills or notes, Commonwealth or State Government securities, semi-governmental and local government securities and loans to the short term money market.

6. *Interest Rate Limits*

The Banking Act gives the Reserve Bank the authority, with the approval of the Commonwealth Treasurer, over the range of interest rates payable to or by banks.⁶ By influencing the terms on which banks borrow and lend, the Bank is able initially to affect the flow of funds to and from banks and, to the extent that borrowers and lenders respond to changes in the terms of bank financing, ultimately to influence the general level of interest rates.

With regard to certificates of deposit, the banks are free to determine their own interest rates up to the maximum set by the Reserve Bank.

7. *Exchange Controls*

Australia's exchange controls are administered by the Reserve Bank, the object of which is to prevent unacceptable capital movements in either direction between Australia and other countries. The trading banks have been authorized to approve and complete some transactions of a current non-capital nature as agent for the Reserve Bank but all other transactions have to be transmitted through the Reserve Bank.

All arrangements and agreements which any bank in Australia makes which are likely to require periodic remittances abroad are required to be submitted to and approved at the outset by the Exchange Control. It is also necessary to obtain Exchange Control permission before any securities are sent out of the country.

Since 1974 direct investment in Australia by non-residents which is noticed via the exchange control mechanism has also been subject to screening by a Foreign Investment Committee set up by the Australian Government.

8. *Central Bank Credit*

All trading banks can always borrow from the Reserve Bank which acts as "lender of last resort." When banks borrow from the Reserve Bank they have to pay interest and if the Bank wishes to discourage borrowing it will make the rate of interest very high.

9. *Bank Examination*

All trading banks are required to prepare an annual balance sheet and statements of profit and loss, income and expenditure in respect to Australian business, liabilities and assets within Australia, debits to customers accounts, and statements of the bank's foreign position.⁷ In addition, banks have to prepare statements of loans, advances and bills discounted, of deposits and any additional statements which might be prescribed.⁸

The Auditor-General is required under the Banking Act to periodically investigate the books, accounts and transactions of each bank and to furnish reports to the Treasurer and the Reserve Bank on the affairs of each bank.⁹

10. *Cartel Restrictions*

The Banking Act makes it illegal for trading banks that are going to enter into an arrangement or agreement to sell its business by

⁶ Banking Act, 1959-74, § 50.

⁷ *Id.* § 52(1).

⁸ *Id.* § 54(1).

⁹ *Id.* § 61.

amalgamation or otherwise or to effect a partnership with another bank, to do so without the prior written consent of the Treasurer.¹⁰

11. *Evenhandedness of Application of Regulation Overall*

The question of evenhandedness of applications to foreign and domestic banks does not apply since foreign banks are not allowed to set up a banking business in the first place. The rules are applied evenly with regard to domestic banks.

AUSTRIA*

The banking industry in Austria is controlled by the following laws:

1. Kreditwesengesetz (Law Concerning the Credit System) of 1939;
2. Nationalbankgesetz (Law Concerning the National Bank) of 1955;
3. Devisengesetz (Law Concerning Foreign Currency) of 1946;
4. Aktiengesetz (Corporation Law) of 1965;
5. Gesetz gegen den unlauteren Wettbewerb (Law Concerning Unfair Competition) of 1923, as amended; and
6. Mitteilungen des Direktoriums der Oesterreichischen Nationalbank (Notices by the Management of the National Bank).

1. *Deposit Restrictions*

Operation of a bank in Austria is subject to licensing. The scope and type of banking activities for each bank, domestic or foreign, is specified in the license, and there are no other limitations. However, certain restrictions can be imposed by the National Bank of Austria pursuant to special legislation, such as the Foreign Currency Law (Devisengesetz of 1946), and these are applicable to all banks regardless of their owners.

a. *Limits on Deposits of Resident Nationals.*—There is no limitation on deposits by residents in either domestic or foreign currency in any bank.

b. *Limits on Inflows of Funds from Abroad.*—At present inflows of funds from abroad are subject to approval by the National Bank, and restrictions are more strict for amounts over 260,000 schillings. However, approvals of transfers of funds between residents and non-residents who are related are freely granted. Although short term foreign assets and liabilities in convertible currencies of authorized banks are not subject to limitations, any increase over the April 1974 level is subject to the provisions of a gentlemen's agreement with the National Bank providing for a supplementary reserve requirement. Acquisitions of real estate and purchases of stock are subject to scrutiny as required by general economic conditions.

c. *Foreign Bank Access to Savings Deposits.*—A foreign bank has full access to savings deposits, just as any other bank, unless specifically excluded at the time of licensing.

¹⁰ *Id.* § 63(1).

*Prepared by George Jovanovich, Senior Legal Specialist, European Law Division, Law Library, Library of Congress, October 1975.

d. *Codes of Fair Competition*.—Competition for deposits is generally permissible, although it is subject to provisions of the Unfair Trade Law and special competition agreements of the banking industry. There are also agreements as to interest rates on deposits enforced by a committee of the banking industry.

2. Reserve Requirements

a. *Direct Reserve Requirements*.—The National Bank of Austria requires all banks, domestic or foreign, to maintain a minimum reserve in cash at the National Bank. The amount varies with the type of deposits, such as 9% for demand deposits, 7% for time deposits of a duration less than 12 months, and 6% for deposits of more than 12 months. However, for banks with deposits totaling under 40 million schillings, the reserve is 5% for demand deposits and 4½% for time deposits. Different reserve amounts, even up to 75%, were established for foreign deposits from 1972–1974. Although such reserve amounts are not now in force, they can be restated at any time.

b. *“Special Deposits”*.—Special deposits exist as an instrument of carrying out National Bank financial policy, such as buying government obligations on the open market, but are not in frequent use.

c. *Secondary Reserves*.—There are no secondary reserve requirements.

d. *Liquidity Ratios*.—Liquidity ratios are provided by the Law Concerning the National Bank and by agreements between the National Bank and representatives of the banking industry. There are two types of liquidity ratios, first and second degree, depending on whether a holding of cash or commercial paper of high convertibility is required.

Minimum reserves and liquidity requirements are computed separately for different purposes. However, funds deposited by banks in the National Bank as minimum reserves are considered in the liquidity ratio.

The present rates for banks are 10% for first degree liquidity (cash) and 30% for second degree (commercial paper). For savings institutions, the rates are 10% and 25%, respectively.

Liquidity ratios are not uniform for all financial institutions. They vary according to the type of the organization, e.g., cooperative credit institutions, agricultural banks, and mortgage banks. However, the first and second degree liquidity is limited to 40% combined of the deposits on hand.

Minimum reserves and liquidity requirements are not cumulative. They are computed separately for different purposes, but funds deposited by banks at the National Bank as minimum reserves are considered for the liquidity ratios.

3. Priority Investments

There are no legal requirements for priority investments. However, the National Bank may insist on special deposits, thus enabling it to exercise a certain pressure on banks.

A development bank known as the Kontrollbank was organized pursuant to the Bank Control Law (Kontrollbankgesetz) and is responsible for the financing of public works.

4. *Credit Ceilings*

Credit ceilings are an important instrument of monetary policy and are set by agreements made between banking authorities, i.e., the Federal Ministry of Finance and the National Bank, on the one hand, and representatives of the banking industry, on the other. Any disregard of credit ceilings entails certain measures applied by the National Bank, such as higher discount rates for refinancing credits through the National Bank.

Credit ceilings vary according to whether the institution is a bank, savings bank, mortgage bank, credit cooperative, etc. The percentage used to determine the credit ceiling of a financial institution is based on the amount of deposits a bank holds and its own capital designated to be loaned out. In the computation, a bank's capital reserves are included but not the value of its buildings.

The percentage of capital available for credit is 75% for all banks, but of deposits it is 75% for commercial banks and 65% for savings institutions. Rates for credit institutions vary from 50-75%.

Since 1973, however, the credit volume has been further limited by an agreement which limits the credit banks may extend to an increase of 1% per month of their capital.

5. *Loan Restrictions*

Underwriting of stock by banks is not customary, and not many corporations go public. Banks emit their own debentures and invest the proceeds in various industries. Such emissions have to be approved individually.

Although there are no loan restrictions, there is a requirement to notify the committee of the banking industry of loans exceeding 2 million schillings. There are many programs of subsidized credits for particular users with discretion exercised in the selection of banks participating in these programs.

6. *Interest Rate Limits*

Savings deposit rates are fixed by agreement. The present rates are: for deposits of 3-12 months duration, 5%; for those of 12 months or more, 5½%; for 36 months, 6%.

Interest rates on loans are negotiable but depend somewhat on the discount rate of the National Bank. At present interest rates vary between 6½ and 7½%.

7. *Exchange Controls*

The Foreign Currency Law and the multiplicity of instructions and special rules issued by the National Bank have created an effective exchange control applicable to all banks.

8. *Central Bank Credit*

The National Bank has two types of credit applicable to all banks: discount credit and Lombard Loans involving securities. Officially there is no discrimination, as credit is based strictly on the financial responsibility of the borrower; however, the human element cannot be disregarded.

9. *Bank Examination*

Annual financial statements and balance sheets must be submitted to the Federal Ministry of Finance and the National Bank.

For commercial banks, the final annual statements have to be prepared by independent auditors. The statements of savings institutions and credit cooperatives are prepared by the controlling organization.

In addition to the above-mentioned regular examination, the Ministry of Finance has the right to order an examination of any bank to make sure that the licensing requirements are observed.

The National Bank also must be given complete information by banks in order for it to properly administer refinancing transactions and enforce exchange controls.

10. Cartel Restrictions

Banks are not subject to the new Cartel Law of 1972; however, the merger of banking institutions must be registered with the Cartel Registry.

11. Evenhandedness of Application of Regulation Overall

Present Austrian banking laws are based in general on German legislation introduced before World War II and as yet have not been replaced by new Austrian legislation. These laws are too rigid to fit the modern banking system which evolved as a result of economic conditions after that war, and there is a great deal of discussion on the need for an overall revision of banking laws. It appears, however, that the system is functioning without serious problems by means of gentlemen's agreements between the banking community and government fiscal authorities, as well as between the National Bank and the banking community, on reserves and liquidity ratios. Moreover, although licensing, central bank credit, and the authority to apply punitive or disciplinary measures for disregard of policy standards provide much room under this system for discretion and discrimination, economic writers and experts do not indicate abuses.

BAHAMA ISLANDS*

Banking activities have been important in the development of financial stability in the Bahama Islands. In 1974 legislation was passed establishing the Central Bank of The Bahamas as a corporate body of the Bahamian Government. Its function is to promote and maintain monetary stability through the control of exchange rates, interest rates and the availability of credit in all its forms. It is responsible for the issuance of currency and the development of national banking statistics. It serves as the fiscal advisor and banker for the Government and as a liaison with the banking community of the Bahamas and is also charged with the regulation of banking institutions.

1. Any Deposit Restrictions

a. Resident nationals may place deposits in either domestic or foreign banks.

b. There is a requirement that the Bank determine at the time of its entry into the Bahamas that any foreign currency admitted is "freely convertible currency," that is, currency that is freely negotiable and transferable in international exchange markets at exchange rate mar-

*Prepared by (Mrs.) Jean V. Swartz, Senior Legal Specialist, American-British Law Division, Law Library, Library of Congress, November 1975.

gins in accord with the Articles of Agreement of the International Monetary Fund.

c. Foreign banks have access to savings deposits and there is no restriction imposed preventing them from having such access.

d. No codes of fair competition have been found restricting the solicitation of the deposits of other banks.

2. Reserve Requirements

a. All banks must maintain a "Statutory Reserve," a percentage of its deposit liabilities in Bahamian dollars fixed by the Bank at not less than 5 percent nor more than 30 percent. This percentage cannot be varied more than 5 percent in any one month. Different percentages may be required for different classes of commercial banks. The Bank must include in the order fixing the percentages the amount that must be deposited in the Central Bank.

b. No mention is found of special deposits in the regulations.

c. There appears not to be any requirement for the maintenance of secondary reserves.

d. The liquid assets of a commercial bank on a monthly basis should not be less than the percentage of the amount of its deposit liabilities in Bahamian dollars as required by the Central Bank. The fixed percentage should not be less than 10 percent nor more than 30 percent and shall not be increased in any 30 day period by more than 5 percent.

The term "liquid assets" includes:

- (1) notes and coins;
- (2) any cash balance held at the Bank;
- (3) money at call and demand balances at any financial institution carrying on business in the Bahamas;
- (4) Treasury bills;
- (5) stock of the Government;
- (6) any instrument or security of a kind referred to in subparagraph (ii) of paragraph (f) of section 27 of the Central Bank Act;
- (7) any freely convertible foreign currency;
- (8) money at call and demand balances at any financial institution abroad being money at call or demand balances held in freely convertible foreign currency;
- (9) any other asset designated for the purposes of this subsection by the Bank.

3. Priority Investments

Investments are not subject to any priority standards.

4. Credit Restrictions

The Central Bank possesses the power to control credit. It may do so by issuing regulations prescribing the maximum amounts of loans or advances that commercial banks may have outstanding at any one time or during periods specified in the regulations. It may also issue regulations giving the purposes for which, the maturities for which, and the security on which loans or advances may be made by commercial banks. These regulations may be applicable to all the loans of any specified commercial bank or to any specified class or classes of loans or advances of any such specified class or classes of such banks. Any such changes authorized by a regulation or regulations shall not

alter any existing loan or advance in effect at the time the regulation or regulations come into force. The effective date of the regulation after its publication in the Gazette must be 30 days or more after the date of publication.

5. *Loan Restrictions*

The Central Bank may not grant unsecured loans or advances to any person. The amount of any securities issued or guaranteed by the Government to the public with a maturity date 5 years after their date of issue (including any such securities held by the Bank as security for any loans or advances) may not be more than 20 percent of the demand liabilities of the Bank. The total amount of any securities bought, held or sold to promote the securities market by the Bank shall not exceed 5 percent of the total liabilities of the Bank (including any loans or securities held by the Bank as security for any loans or advances). Where loans are made on bills of exchange, promissory notes, other credit instruments, Treasury bills or securities of the kind mentioned in paragraphs (b) and (c) of § 27, they may not issue before a longer time than the maturity date of the instrument itself or 93 days whichever is the longer, and the amount of the loan must not exceed 85 percent of the market value of the instrument at the date the Bank acquires it. Loans made to the Government by the Bank shall not exceed in amount 10 percent of the average ordinary revenue of the Government or 10 percent of the estimated ordinary revenue of the Government, whichever is the lesser amount.

6. *Interest Rate Limits*

The Central Bank may set interest rate limits as part of its power to "do any other banking business incidental to or consequential upon the functions of the Bank." The commercial bank interest rate for savings accounts was 4 percent for both Bahamian and United States dollars. The rate of interest on loans to commercial companies was usually 10–11 percent in the latter part of 1973, and personal loans frequently are discounted on the installment basis with interest rates only a little more than in the United States. Interest rates on loans from savings and loan associations range from 10 percent upward while the associations pay from 5–6 percent on deposits made with them.

7. *Exchange Controls*

The Central Bank of the Bahamas is responsible for the administration of exchange controls and may delegate its authority to authorized dealers. Banks have been classified as authorized dealers.

The Bank has been given extensive power in the area of foreign exchange. It may buy and sell gold, foreign exchange, and foreign bills of exchange and securities of foreign governments. It may have deposits in any foreign financial institution and use such deposits any way the Bank considers it expedient for the Bank's performance of its purposes. It also has the power to borrow foreign currency from any foreign financial institution on such terms and conditions as it considers appropriate.

This power is restricted because the Bank is required to maintain a reserve of external assets which reserve may not at any time be less than 50 percent of the value of total of the notes and coins in circulation and the demand liabilities of the Bank. This reserve may consist of any combination of the following:

- (a) gold (whether coins or bullion);
- (b) notes and coins (other than gold coins);
- (c) balances payable on demand held with financial institutions or agents;
- (d) money at call;
- (e) bills in the nature of Treasury Bills maturing within 184 days issued by any foreign government;
- (f) marketable securities issued or guaranteed by any foreign government;
- (g) any reserve asset deemed by the Board [of Directors] to be an internationally recognized reserve asset.

The securities described in (f) which have a maturity of more than 5 years may not make up more than 30 percent in value of the whole of the assets in the reserve of external assets.

Banks which have been authorized to act as dealers may permit winter residents and persons with residency permits but without work permits to open external accounts. Non-resident companies with direct investments in the Bahamas and non-resident investors may also open external accounts in authorized banks if they have the prior approval of the Central Bank. These external accounts are usually composed of foreign currency from outside the Bahamas, but income on registered investments may also constitute part of the external account. These funds may be transferred abroad.

Block accounts which are held mainly by emigrants are accounts which have funds credited to them which may not be used freely by non-residents. If the emigrant's account and the value of his assets exceeds B\$25,000, the excessive amount over B\$25,000 is credited to a blocked account. The amount so credited cannot be transferred for 4 years through the official exchange market. After 4 years they are transferable through the official exchange market and may be invested in some resident-held assets or spent locally for any other purpose.

Authorized dealers such as banks are restricted in their dealings with foreign currency and securities. They may make payments to nonresidents for residents for certain services and invisibles within certain limits for such payments for commissions, royalties, interest on Bahamian assets and insurance payments. Residents traveling to foreign lands are restricted in the amounts of foreign currency they may take with them, any excess amount must be approved by the Central Bank and all foreign currencies not used for travel may not be retained abroad for use on another trip or for other purposes and must be returned within a month of the resident's return to the Bahamas. There are also restrictions on the amount and the use of foreign currency for education abroad and for family support. The requirement that residents collect immediately all amounts due them in foreign currency from nonresidents and turn them for sale to an authorized dealer apparently has not been enforced.

There are also restrictions placed on the use of capital in exchange situations. The outflow of resident-owned capital is restricted, and there must be exchange control approval for capital transfers to countries outside the Bahamas. Central Bank approval is required for the acquisition of control by nonresidents of an incorporated company controlled by residents and for residents, both individuals and companies, to maintain bank accounts outside the Bahamas.

Direct investments outside the Bahamas through the use of the official exchange must meet certain standards for approval by the Central Bank of the Bahamas. If an adverse effect on the balance of payments is likely, permission is not granted. Inward investment by nonresidents too, unrestricted in principle, has been restricted in practice. The Central Bank must consent to the issue or transfer of shares in a Bahamian company to a nonresident and for the transfer of control of a Bahamian company to a nonresident. When the investment involves the transfer through purchase of real property, the nonresident must obtain permission to purchase the real property. Such permission is given if a fair price has been paid and the payment may be either in Bahamian dollars from an external account or in foreign currency.

The Central Bank must approve the purchase of any property outside the Bahamas, and if it is for personal use, the payment must normally be made with investment currency, and each family may only possess one property. If permission is granted, expenditures necessary to preserve the property or arising from its ownership must be paid for with foreign currency bought at the current market rate in the official foreign exchange market.

The sale of Bahamian securities may be made to all persons without regard to their residency, but the manner of payment is curtailed. Nonresident buyers have to pay for these securities either in Bahamian dollars from an external account, in funds eligible for credit to an external fund, or in Bahamian dollars obtained through the sale of foreign currency in the official foreign market. Bahamians may only purchase foreign currency securities with investment currency. The Central Bank must grant permission of all purchases, sales and switches of foreign currency securities in the Bahamas and of all switches of foreign currency securities by Bahamian residents wherever the transaction takes place. Such transactions must take place through authorized agents and held to the order of an authorized agent.

A resident who wishes to leave the Bahamas permanently, upon his departure acquires the classification of a nonresident. He may transfer his normal household and personal effect and up to B\$25,000 of his Bahamian dollars at the current market rate in the official foreign exchange market. When he has an excess of Bahamian dollars over the B\$25,000, this excess may be transferred in the official exchange market after 4 years or the investment currency market. The income accruing from this excess after he has become a nonresident is normally remittable at the current market rate in the official foreign exchange market.

Resident banks must have permission before they can make loans in domestic currency to any corporate body (other than a bank) resident in the Bahamas and controlled directly or indirectly by nonresidents. Foreign currency that has been deposited with authorized dealers can be loaned to nonresidents for any purpose.

8. Central Bank Credit

The Central Bank may accept deposits from any commercial bank or any public corporation.

9. Bank Examination

The Minister requires banks to publish in the Gazette at a stated time a "true and full yearly statement of its accounts." The auditor

of the bank shall have signed an attached certificate certifying that the statement has been properly drawn and is correct in all particulars. The auditor has the right to examine the books, accounts and vouchers of the bank at all times. The Minister shall take care that the form and particulars of the required statement are not contrary to the provisions of any law of the United Kingdom or any other country of the Commonwealth which have banks doing business in the Bahama Islands. Special returns containing such information as the Minister decides is reasonable to require must be submitted, but the commercial bank does not have to reveal the private account or accounts of any person who has dealings with the bank involved in sending in the return.

10. *Cartel Restrictions*

No information has been found that cartel restrictions exist in the Bahama Islands.

11. *Evenhandedness of Application of Regulation Overall*

Apparently, foreign and domestic banks have been functioning harmoniously in the Bahama Islands, and the application of the regulation has been satisfactory to the banks.

BELGIUM*

1. *Deposit Restrictions*

(a) *Limits on Deposits of Resident Nationals.*—According to the 1971 Report of the Belgian Banking Commission, branches of foreign banks located in Belgium are not subjected:

... by the Belgian law to any limitation on their geographical area of activity and they may do business with their clientele without regard to residency or nationality.

The creation by a foreign bank of a branch and registering it in effect integrates it in the country's banking system, empowers it to fully develop its activities on the same level as domestic banks chartered under Belgian law.

Thus foreign bank branches are restricted in their operations only to the extent as are domestic banks, as for instance in regard to the liquidity ratio as stated in Article 11 of the Law of August 2, 1975 (*see infra*, no. 2). However, under certain circumstances, such as overriding concern of national monetary policy, the national interest may call for more restrictive measures than apply to domestic banks. Such a reservation is, for example, envisaged in the Treaty of Friendship signed on February 21, 1961, in Brussels between the United States and the Kingdom of Belgium. Article 6, paragraph 5, states that "each party reserves the right to determine the extent to which aliens may establish, acquire interest in, or carry on enterprises operating within its territories in . . . banking involving fiduciary or depositary functions. . . ."

(b) *Limits on Inflows of Funds from Abroad.* According to Belgo-Luxembourg Exchange Institute, the Belgian banks may receive on convertible accounts (which can be opened freely in the name of any nonresident) equivalents of currencies negotiated on the official

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market. The balances may be used freely for settlements with residents:

... which either must or may be made through the official market, and they may be credited freely with proceeds from the sale by a nonresident of convertible currencies in the official market to authorized banks in Belgium or Luxembourg. Balances on Convertible Accounts may be transferred freely to other Convertible Accounts or be converted into any currency in the official market. Advances on Convertible Accounts other than mail-credit advances are subject to authorization by the IBLC. Convertible Accounts may be held in the form of sight accounts (demand deposits), prior notice accounts and time deposits.

The inflow of funds from abroad may be transferred freely also to financial accounts, which may be opened only for residents in convertible area countries (for example, foreign diplomats, foreign nationals employed by diplomatic missions accredited in Belgium, and by specified international organizations situated in Belgium).

However, on May 11, 1971, a prohibition was instituted on the payment of interest by banks in Belgium on balances in convertible accounts, which amounted to a limit on inflow of funds from abroad.

This prohibition was lifted on January 25, 1974. Banks were also again permitted to accept time or notice deposits on convertible accounts, provided the maturity did not exceed one year.

All banks are bound to respect the above rules, and no discrimination against the foreign banks could be verified in the material used for this report.

(c) *Foreign Bank Access to Savings Deposits.* Foreign banks' access to savings deposits in general varies, according to one writer on the subject and depends on "the orientation of the policy decided by each bank regarding the funds received from their parties." The decisions on this matter are related to "the volume of their own resources (*les fonds propres*) and the obligations toward third parties in respect to the use and particularly to the risk associated with the granting of credits."

The use to which deposits are put varies also with the risk criteria found to be present which are measured by a special banking formula. The regulation in force before the amendment of Article 11 (of the Decree of July 9, 1935) by the Law of August 2, 1975, grants each bank the liberty of regulating its own volume of reinvestment and the right to risk its own resources. (A bank's own resources may include only 5 percent of third party deposits.) However, the banking regulations establish a certain proportion between the total of the evaluated risks (*ponderés*) and the amount required from a bank's own resources by reporting both of them to the same unit of measurement, namely the liability to be covered.

In this matter, the Belgian banking regulations are referred to as a "regime based on responsibility within a framework of liberty [of action]."

Maintaining a correct proportion between the amount of a bank's own resources (*les fond propres*) and the deposits or the funds of third parties constitutes a necessary condition, but not one that is sufficient to determine the solvency of a bank.

The above regulations are (after the implementation of Article 11 of the Law of August 2, 1975) an element to be considered by the Banking Commission in formulating the monetary policy of the country, and in the future may affect the foreign banks more than domestic banks.

(d) *Codes of Fair Competition.*—The law of 1935 (Art. 15) restricts all banks from using their funds for influencing directly or indirectly the public opinion on any matters in which the banks may have a pecuniary interest.

The Statutes of the Banking Association state the general principle that all members must respect their obligations, and in addition such obligations are to be included at the end of all annual reports.

In cases of noncompliance with one's professional obligations, members are subject to various penalties according to the gravity of the facts: a simple warning or temporary or permanent exclusion. These sanctions are imposed by the Central Committee by means of a three-fourth's vote. Since July 1941, a special convention destined to assure the execution of inter-bank agreements has been in effect. According to Timmermans, this agreement, amended several times, bars any unfair or illegal competition which may damage the collective interests of the banking profession and the normal exercise thereof. It restricts the use of pressure against a client, within the context of fair competition. It also prohibits informing a client of another bank that it would be advantageous for the latter to open an account in a bank to keep one's supply contract with a certain company with which said bank has business dealings or which said bank controls, or suggesting to someone to enter into business relations with another bank or branch because it is closer than the former's bank. Underlining the fact to a customer that another bank does not have any foreign business connections, even in an isolated case, is also restricted by the convention.

The above agreements restricting solicitation of clients from another bank (i.e., for deposits to another bank) applies to all banks in the Belgian system, foreign or domestic.

2. Reserve Requirements

(a) *Direct Reserve Requirements.*—The banks in Belgium are subject to two kinds of reserves: the legal or statutory reserve and the monetary reserve.

The legal reserve is instituted to cover the eventual losses of the bank and must be permanently in existence. This is the reason why banks are obliged to earmark such deposits for this purpose only and separate them from all other assets of the bank. The funds constituting the legal reserve must be free of any encumbrances which may obstruct or impede their particular destination (e.g., they may not be pledged to secure a debt, etc.)

Article 13 of the Decree of July 9, 1935, on the Control of Banks states that Belgian banks must put their legal reserve into the securities issued by national or local governments. However, the same Decree, in Article 6, excludes foreign banks from the application of Article 13.

Companies are required to set aside 5 percent of their profits until the statutory (legal) reserve reaches 10 percent of their capital.

The monetary reserve was created by the Regulation of the Banking Commission Establishing a Monetary Reserve Ratio, issued on December 21, 1971. This decision implements the provisions of Article 10 of the Law of 1935 on the Control of Banks which requested the Banking Commission to "determine periodically the proportion which must exist for different categories of banks" between their liquidities and assets, on one hand, and their liabilities and obli-

gations on sight and short term, on the other hand; as well as between their capital and reserves on the one hand and their total amount either in deposit or the total obligations on sight and short term, on the other hand.

The reserve ratio applicable to the various categories of monetary and quasi-monetary liabilities are fixed by the Banking Commission on the recommendations of the National Bank of Belgium with due regard to the requirements of monetary policy and credit control (Art. 4). They must not exceed 20 percent for sight liabilities and liabilities for terms of not more than 1 month, and 7 percent for liabilities for terms of more than 1 month and for deposit passbooks. They should not be increased by more than 3 percentage points for each period of 30 days, without the approval of the Minister of Finance and the Minister of Economic Affairs. A bank is obligated to form a monetary reserve, according to this decision, only if the total of that reserve, computed in accordance with the decision, would exceed 20 million francs. When at least 1 of the reserve ratios mentioned above is fixed at a level exceeding two-fifths of the maximum rate permitted, the Banking Commission may raise the amount of the exemption. Such reserve, according to Timmermans, "is in principle, formed by assets deposited at sight with the National Bank [of Belgium]. Nevertheless, other modalities may be considered. For example, the reserve may take the form of a compulsory acquisition by the bank of the public securities of a special type, or of the Government 'Fonds de Rentes,' or even of the securities of foreign countries."

The monetary reserve ratios policy was continued through the Law of December 28, 1973, under various decisions of the Banking Commission. In its Annual Report of 1973-1974, the Commission stated that this law allowed "the extension of the scale of the possible measures to be taken in the name of monetary policy. Beyond the creation of the deposits for the monetary reserve, it established all structural coefficients necessary for the monetary policy . . ."

The monetary reserve was constituted by special deposit at sight without interest in the National Bank and imposed in order to reduce the volume of monetary circulation.

(b) "*Special Deposits*".—The Law of December 28, 1973, specifically authorized the National Bank of Belgium in Article 1 (b) to recommend to the banks the creation in the National Bank of Belgium of "special deposits, in Belgian francs or in foreign currencies, interest-producing or otherwise, and which amount shall be established depending upon the elements or evolution of the elements which it [the National Bank] may determine."

On February 1, 1974, the reserve requirements on Belgian franc holdings in Convertible Accounts (both with respect to their level and any increases or decreases) were revoked; these requirements had been 25 percent of the net liabilities during the base period (August 31-November 1, 1972), plus (minus) 100 percent of any increase (decrease) since that period. The reserve requirement applicable to the debtor spot position in foreign currencies on the official market was abolished according the International Monetary Fund's 26th Annual Report on Exchange Restrictions of 1975.

(c) *Liquidity Ratios*.—The liquidity ratio (*coefficient de fonds propres*) is, according to the Decision of October 5, 1965, the “ratio expressed as a percentage of a total of a bank’s own funds to average total liabilities.” (What is considered the bank’s own funds is stated in the Decree of November 24, 1937, issued under Article 12 of Decree No. 185 of July 9, 1935.)

The procedure for the calculation of the liquidity ratio implies the necessity of observing special banking technicalities which are described in detail in the above-mentioned decision, attached in translation to this report (*see Appendix*).

On August 2, 1975, Article 11 of the Decree of July 9, 1935, on the Control of Banks was amended. It states that the Banking Commission, in order to control the solvency and the liquidity of banks, is empowered to establish for all banks or by categories of banks the proportions which must be respected:

(1) between, on one hand, some of their assets and the amounts of their monetary rights (*droit de recours*), and, on the other hand, the total or particular part of their liabilities and obligations;

(2) between, on one hand, their own resources (*fonds propres*) and, on the other hand, the total or particular parts of their liabilities and obligations or of assets and of their monetary rights (*droit de recours*);

(3) between, on one hand, their own resources (*fond propres*) and, on the other hand, the amount of their assets and the amounts of their monetary rights (*droit de recours*) against a specified enterprise or against a group of enterprises affiliated and constituting in fact a single risk;

(4) between the assets in foreign currencies in cash and on term, on one hand, the engagements in cash foreign currencies and on term, on the other hand, eventually through the foreign currencies and according to their respective maturities, or between these assets and engagements.

It is too soon to know how the new Article 11 will be implemented or what the liquidity ratio recommended this time by the Banking Commission and the National Bank will be in the context of the Law of December 28, 1973, which requests that there be established a minimum or maximum proportion between the various elements or certain elements of the components of the assets and the liabilities or the limits for certain elements of these components in such a way that these elements should be considered in their total amount, or when they vary, to take into consideration a period of reference, or according to these two criteria at the same time.

In 1974, the Banking Commission recommended that the bank’s own resources may not at any time be less than the amount of their total and permanent investments, including real and personal property, participations and extended credits, legal reserve and payments due.

In researching the legislation, the Banking Commission’s decisions, the doctrine on the reserve requirements, special deposits, and liquidity ratios, no written policy of discrimination against foreign banks doing business in Belgium could be located. However, this conclusion is valid only for the date of the legislation mentioned above, which does not include the latest Banking Commission decisions.

3. *Priority Investments*

Article 13 of the Decree of July 9, 1935, obligates Belgian banks to place their legal reserve into Government securities. However, Article 6 of the same decree exempts foreign banks from the application of Article 13.

4. *Credit Ceilings*

Banks are obliged to inform the National Bank of Belgium and the Banking Commission of the names of all clients to whom they have extended credit or given loans in excess of a million francs, according to Article 12, Decree of July 9, 1935. Until 1968, the private banks offered to provide 100 percent local financing to foreign investors, but because of the inflation, money became scarce in 1969 and interest rates rose to very high levels. The present trend in Belgium is toward restricting credit.

In 1975, the banks in Belgium were requested not to allow their net external debtor spot positions to increase beyond specific levels. In addition, a ceiling was imposed on the net foreign asset positions of Belgian banks (their net creditor spot positions in foreign currencies on the official market). Banks were also instructed that their overall foreign currency position relating to the official market (spot and forward combined) should normally be close to balance and should not register a substantial creditor or debtor position.

The credit ceilings vary because they are dependent on the economic policy of the Government. However, one may state that for 1975, the individual ceilings were fixed in keeping with the bank's size and turnover with a general minimum of 20 million francs and subject to a 10 percent leeway, regardless of whether the bank is domestic or foreign.

5. *Loan Restrictions and Prohibitions Against Underwriting*

In granting loans, not all banks have the same rules. It is possible that a bank may refuse a risk, and another bank may accept it. These rules are the result of many factors, which may be constant or may vary from bank to bank. Among the constant factors the most important are:

- (1) the deposits;
- (2) an evaluation of the future debtor (his solvency, capacity to pay in time, the prospect of a good investment of the loan, guarantees offered, commercial standing, and morality); and the
- (3) the rentability or lack of rentability of the operation to be financed.

Variable factors that should be mentioned include:

- (1) the general evolution of the economy and its particular circumstances;
- (2) the speciality of the corporation requesting the loan;
- (3) the monetary policy followed by the National Bank;
- (4) certain measures and interventions by the legislature or Government through which the State may guarantee the payment of the loan when granted for certain investments; and
- (5) the credit policy of the bank involved.

Borrowers may be classified into three categories: businessmen, the Government through its agencies, and private persons.

Belgian banks have always encouraged the extension of discount credit. Because of this credit policy, the banks were obliged to invest a great deal of their deposits in public securities and to reduce considerably, by this fact, their liquidity for granting loans in the private sector.

For discount credits, the banks established a maximum limit based on the solvency of the debtor, and varying with the kind of commercial instruments involved.

In respect to the granting of loans to private persons, the Belgian banks increased the amount of this type of credit after the second World War, especially to consumers. Usually, the loans were limited to an amount between 150,000–200,000 francs. This figure varied according to the purpose for the loan, the capacity of the borrower to repay it and the collateral and debtor's income.

Financing a sale on installments was regulated by the Law of July 9, 1957, which imposed a series of restrictions. However, if these rules, limitations, or monetary policy appears to be enforced at the discretion of the banks, such a situation is true only partially because the above decisions are based on the interpretation by the Banking Commission of the Law of July 9, 1935, on Banking as amended. For this reason, a retrospective review of Article 11 is absolutely necessary. Indeed, the new amendment of Article 11 by the Law of August 2, 1975, imposes "certain proportions" between the assets and resources of the banks and their liabilities. In this context, the bank must limit the loans to what exceeds the formula for this proportion as established by the Banking Commission. At the present time, there are no figures or decisions available as issued by the National Bank or the Banking Commission taken in implementation of the Law of August 2, 1975, Article 11.

According to Article 14 of the Law of July 9, 1935, as amended by the Law of August 2, 1975, banks constituted under any one of the forms stated in Article 8 are prohibited from possessing any share in the association or participating, under any form, in one or more commercial companies.

In respect to Belgian banks; the amendment of Article 14 did not erase but increased the confusion of what shares banks are allowed to subscribe to, because the former Article 14 expressly permitted Belgian "to possess" shares of another bank.

However, Article 14 does not apply to foreign banks as stated in Article 6, paragraph 2, of the Law of July 9, 1935 (it was *not* amended by the Law of August 2, 1975).

Moreover, when the emission of shares is by an international consortium of banks, foreign banks generally are permitted to participate in a trusteeship regulating the circulation price.

6. Interest Rate Limits

The Banking Commission was authorized by Article 11, paragraph 2, of the Decree of July 9, 1935, as amended, to establish the maximum interest rates applicable to certain categories of credit operations. However, the Law of August 2, 1975, amending Article 11, quashed the above jurisdiction of the Banking Commission. At the present time, no information could be located in the Library of Congress on how the rates will be established under the new provision. In April

1975, the interest rates were running between 11 percent and 14 percent, annually for discounting of trade bills; for the other type of credits, the maximum rate has been rising steadily, and in 1974, rose from 12.5 percent to 13 percent. These regulations were enforced against all banks in Belgium.

7. *Exchange Controls*

According to a Decree of 1944, the Government exercises control over the transfer of goods and other valuables between Belgium and other countries. It establishes the conditions under which the banks authorized to do business with foreign currencies may intervene. At the present time, the Belgo-Luxembourg Exchange Institute has jurisdiction over the exchange controls in the countries of Belgium and Luxembourg. There is no exchange control between Belgium and Luxembourg, however, according to one source; rather, the two countries constitute a single exchange control territory in relation to other countries. The Institute's Administrative Commission is authorized to determine the import-export policy and license trade transactions between the two countries.

The Government wants to ensure that settlements with foreign countries are made, according to the nature of the transactions, through the appropriate exchange market or where payments in Belgian or Luxembourg francs are involved, through the appropriate category of nonresident account.

All inward and outward transactions are divided into four groups. Those included in the first two groups are: merchandise, transport expenses, industrial expenses, insurance, salaries, pensions, fees, subscriptions, taxes and public administration payments which must be settled through the official market (or if made in Belgian and Luxembourg francs, through convertible accounts). Other transactions may be made either through convertible or financial accounts.

In the convertible accounts the balances are equivalent to currencies negotiated on the official market, and these accounts may be opened freely in the name of any resident.

No exchange control documentation is necessary for imports under 50,000 francs in value. Authorized banks are required to be certain that payment is made by one of the markets dealt with in the regulations and that the foreign exchange is not acquired until the import is due. If these requirements cannot be fulfilled, the authorized bank must obtain the special permission from the central exchange commission. Prior examination of supporting documents by the Belgo-Luxembourg Institute is required for payments exceeding 10 million Belgian francs. The exchange control approval is necessary for payments for imports more than 3 months before or 6 months after the date of customs' clearance.

All authorized banks are subject to control in their external positions and therefore transactions in foreign currencies are under the guidance of the Government:

With effect from October 28 [1974], Belgian and Luxembourg banks were required to report daily both the opening and liquidation of forward exchange contracts in foreign currencies against Belgian or Luxembourg francs, classifying them according to whether they were transacted (1) on the official or free market or (2) with nonresidents, resident banks, or other residents. Total forward exchange transactions between two foreign currencies were also to be reported.

8. Central Bank Credit

The banking operations which the National Bank of Belgium is allowed to undertake are listed in Article 17 of its Statutes. According to this Article, the National Bank is entitled, among other things, to discount bills or buy any other commercial securities.

In execution of its mission, the National Bank grants credits of discount (*crédits de réescompte*) to the banks through a special Government agency, L'Institute de Réescompte et de Garantie. This agency grants these credits only on a case-by-case basis, after taking into consideration that the merits backing the solicitation of credit are well-founded. The investigation of the credit demand is not limited to the situation of the bank, but is extended to the client and the beneficiary as well. The nature of each individual operation is also studied before the Institute makes a decision on such credit. The Institute refuses to intervene when the "economic utility of the credit which is presented to it appears contestable." The National Bank cannot, for example, discount the bills which have to run more than 120 days.

The National Bank establishes its own regulations on matters of the admissibility of bills, etc., on credit discounts. These rules, as well as the discount rates vary depending on the monetary policy followed by the Government.

Therefore, the "cost" varies according to the rate of discount on a certain day established by the National Bank in accordance with the economic policy of the Government. In case of inflation, of course, the rate is higher than in normal years.

No discrimination against foreign banks could be found in the treatises and regulations consulted on this topic.

9. Bank Examination

The control of the application of bank regulations is entrusted by law to the auditors of the bank (Art. 19) and the Banking Commission (Art. 35). The auditors (*reviseurs*) are obliged to verify the books at least once a year (Art. 20). For foreign banks, the functions of the auditors are determined by the Banking Commission which must issue "the necessary regulations" (Art. 20, par. 2).

These bank auditors must immediately inform the representatives of the bank of any irregularities, illegalities of operations, or any breach of banking rules; in addition, "any auditor who has knowledge of any decision of the bank the implementation of which would constitute a criminal infraction shall exercise his veto against this implementation and immediately inform the Banking Commission. This veto has a suspensive effect for 8 hours" (Art. 23). The auditors, however, are not entrusted with fiscal control.

The Banking Commission supervises the activity of the auditors of the banks and periodically determines the liquidity ratio as mentioned in Article 11. It is within the jurisdiction of these auditors to inform the Banking Commission about violations by the bank in implementing the Commission's decision.

The auditors are selected by each bank from a list of persons agreed upon by the Banking Commission.

10. *Cartel Restrictions*

According to Article 4 of the Law of July 9, 1935, any merger of banks is void, unless it is authorized by the Banking Commission. The Belgian legislature wanted to submit to Government control the increasing tendency in Belgian business circles towards the concentration of capital. In cases which do not involve amounts of capital that are important enough and sufficient enough to influence the economy, the Banking Commission has not raised any objections. This attitude is in agreement with the provisions of the Law of May 27, 1960, on Anti-Trust, which was enacted to stop only those cartels which posed a threat to normal competition in business, and especially when the general and financial groups' domination requires Government intervention in such practices. Therefore, there is a difference in the application of Article 4 made by the Banking Commission permitting mergers of small banking capitals. However, the principle stated in Article 85 of the Treaty of Rome restricts cartels and only exceptionally admits them when they contribute to "ameliorate the production or distribution of products or to promote technical or economic progress," according to paragraph 3. The decision of the Government is subject to the European Economic Community's Court of Justice for interpretation of Article 85, i.e., how far the Belgian Government may impose its anti-trust policy.

11. *Evenhandedness of Application of Regulation Overall*

The Belgian Government reserved the "right to determine the extent to which foreigners may establish, acquire interests in, or carry on enterprises engaged within its territories in banking involving fiduciary or depository functions," when it signed the Treaty of Friendship with the United States on February 21, 1961.

Based on their regulatory powers, the National Bank of Belgium and the Banking Commission may issue decisions concerning financial policy involving the control over foreign currency exchange transactions, but do not do so outside the scope of the Treaty.

APPENDIX

EXCERPT FROM CENTRAL BANKING LEGISLATION, A COLLECTION OF CENTRAL BANK, MONETARY AND BANKING LAWS, VOLUME II: EUROPE, STATUTES AND RELATED MATERIALS. SELECTED AND ANNOTATED BY HANS AUFRICHT WITH THE ASSISTANCE OF JANE B. EVENSEN, 1967, INTERNATIONAL MONETARY FUND, WASHINGTON, D.C.

[From the Regulation on Monetary Reserve Ratio, pp. 83-88]

CHAPTER VIII. GENERAL OR TRANSITIONAL PROVISIONS

Art. 92. Changes may be made in the By-Laws only at a General Meeting specially called for this purpose.

The General Meeting may make valid decisions on changes in the By-Laws only if the purpose of the amendments proposed has been especially indicated in the summons and if the members present at the Meeting represent at least three fifths of the capital stock.

If a first Meeting does not represent the portion of capital prescribed above, a new Meeting shall be called which shall deliberate validly regardless of the portion of capital present or represented.

In the two Meetings, no amendment shall be allowed unless it is adopted by a numerical majority of the shareholders present or represented and by a majority of the votes to which all the shareholders present or represented are entitled.

These amendments shall become effective only by government approval.

Art. 93. The Bank and its branches, offices and agencies must respect statutory provisions on the use of languages in administrative matters.

Art. 94. [Repealed]

THE REGULATION ESTABLISHING A MONETARY RESERVE RATIO ¹

The Banking Commission

Having regard to Article 11, § 1, of Royal Decree No. 185 of July 9, 1935 on the Control of Banks and the Rules Governing the Issue of Bonds and Other Securities, as amended by Article 8 of Royal Decree No. 67 of November 30, 1939²;

Having considered the opinion expressed by the National Bank of Belgium on the need for introducing a means of influencing the supply of money and credit and for establishing such means in the form of a reserve ratio applicable to the total liabilities of a monetary or quasi-monetary nature;

Decides:

Art. 1. Banks shall set up a monetary reserve in conformity with the provisions of the present Regulation.

The monetary reserve shall be established on the basis of the monetary and quasi-monetary liabilities of the banks.

Art. 2.—(1) The monetary reserve shall be made up of funds maintained in a special sight deposit in Belgian francs with the National Bank of Belgium.

(2) The Banking Commission may, however, upon the reasoned proposal of the National Bank of Belgium, fix the part of the reserve which, depending on circumstances, may or must be made up of assets that are immediately realizable in Belgian francs and are maintained with the Securities Stabilization Fund [*Fonds des Rentes*] or of public securities of a special kind deposited at the aforementioned central bank.

These securities shall not be subject to pledges, objections or impediments of any kind.

¹ The full title in French is *Règlement de la Commission bancaire instituant un coefficient de réserve monétaire*. In English it is Regulation of the Banking Commission Establishing a Monetary Reserve Ratio. The Regulation was issued on December 21, 1961, and entered into force on January 1, 1962.

² For the text of Art. 11 of the Banking Law, 1935, as amended, see below, p. 97.

Art. 3.—(1) For the purposes of the present Regulation, monetary and quasi-monetary liabilities shall be understood to mean liabilities payable in Belgian francs not covered by real guarantees, and with a contractual term of not more than two years, which are, regardless of their origin, in the nature of deposits, current-account liabilities, loans or short-term securities.

(2) These liabilities are grouped in three categories:

1. Sight liabilities or liabilities with a contractual term of not more than one month;

2. Liabilities with a contractual term of more than one month but less than two years;

3. Liabilities recorded in deposit passbooks under terms concerning withdrawal of deposits approved by the Banking Commission.

(3) For purposes of the present Regulation, the volume of monetary and quasi-monetary liabilities shall be established as of the last working day of each month.

It shall be used as the basis for calculating the monetary reserve for the monthly period beginning on the fifteenth day of the following month.

(4) The categories referred to in paragraph (2) of this Article may be taken together or separately; and they may be taken as a whole, or in respect of any increase they may have shown in relation to a reference figure, or as a combination of the latter and the recorded increase.

Art. 4.—(1) The reserve ratios applicable to the various categories of monetary and quasi-monetary liabilities shall be fixed by the Banking Commission on the recommendation of the National Bank of Belgium with due regard to the requirements of monetary policy and credit control.

(2) They shall not exceed twenty per cent for sight liabilities and liabilities for terms of not more than one month, and seven per cent for liabilities for terms of more than one month and for deposit passbooks.

(3) They shall not, except with the approval of the Minister of Finance and the Minister of Economic Affairs, be increased by more than three percentage points for each period of thirty days.

(4) Decisions made in implementation of the present Article shall enter into force on a date to be fixed by the Banking Commission; unless a new decision is made in the manner referred to in paragraph (1) of the present Article, they shall cease to be valid three months after entering into force.

Art. 5.—(1) A bank shall be obligated to form a monetary reserve only if the total of that reserve, computed in conformity with Articles 3 and 4, would exceed twenty million francs.

(2) When at least one of the reserve ratios is fixed at a level exceeding two fifths of the maximum rate provided for in Article 4(2), the Banking Commission may raise the amount of the exemption provided for in the preceding paragraph.

Art. 6. The present Regulation shall enter into force on January 1, 1962.

THE DECISION ESTABLISHING A LIQUIDITY RATIO¹

The Banking Commission,

Having regard to Article 11, § 1, of Royal Decree No. 185 of July 9, 1935 on the Control of Banks and the Rules Governing the Issue of Bonds and Other Securities, as amended by Article 8 of Royal Decree No. 67 of November 30, 1939;²

Considering that the Banking Commission's Decision dated December 31, 1962 maintained in force the provisions on this point covered by the regulations on statutory ratios dated January 29, 1946 and October 11, 1949 under the heading "Regulation of December 31, 1962 governing the solvency ratio";

Considering that, while it is justifiable to continue to require banks to hold a *certain volume of their own funds in relation to the volume of funds received from third parties*, and to set minimum levels according to a classification of banks into categories, it is desirable to operate this classification henceforth on the basis of the principal characteristics of the bank's structure, and particularly in terms the risk involved in granting credit;

¹ The full title in French is *Arrêté de la Commission bancaire instituant un coefficient de fonds propres*. In English it is Decision of the Banking Commission Establishing a Liquidity Ratio. The Decision was issued on October 5, 1965 and entered into force on October 26, 1965.

² For the text of Art. 11 of the Banking Law, 1935, as amended, see below, p. 97.

Decides:

Section I.—Definitions

Art. 1. The liquidity ratio [*coefficient de fonds propres*] referred to in Article 5, below, is the ratio expressed as a percentage of the total of a bank's own funds to average total liabilities.

A bank's own funds shall be considered to be the total, less contingency reserve, of the items covered under the heading "not claimable" [*nonexigible*] in Schedules A and B attached to the Royal Decree of November 24, 1937, issued under Article 12 of Royal Decree No. 185 of July 9, 1935, adjusted by the addition or subtraction of declared profits or losses.

Average total liability is found by taking the arithmetic average of total liabilities for twelve consecutive months. Total liabilities means the total, at the end of each month, of the commitments, whether or not at fixed date or notice, payable in Belgian francs or in foreign currency, and consisting of deposits, balances on current account, loans or short-term securities.

Art. 2. The risk ratio [*coefficient de classement*] referred to in Article 3, below, is the ratio, expressed as a percentage, of the average total weighted risk to the average total liability as defined in the third paragraph of Article 1, above.

The average total weighted risk is the arithmetic average of the items composing the total weighted risk recorded at the end of each of twelve consecutive months. The total weighted risk is composed as follows:

A. (1) Three fourths of current or deposit accounts, whether represented or not by bills; banks' acceptances; bills of exchange other than those mentioned in A(3) below;

(2) One half of customers' liabilities for acceptances, less the bank's own acceptances; uncovered documentary credits granted at the request of, and for the account of, clients;

(3) One fourth of the rediscountable bills listed in Schedule A attached to the Royal Decree of November 24, 1937; rediscounted bills; bills taken from the bank's portfolio for encashment and security [*cautions*] and guarantees held for third-party account;

(4) One tenth of the day-to-day loans granted outside the guaranteed call money market in Brussels; advances to bankers, to the parent house and to branches and agencies; other banks' acceptances and uncovered documentary credits, whether confirmed or unconfirmed, opened at the request of bank correspondents;

(5) One fiftieth of the total outstanding forward operations owing to the bank in Belgian francs or in foreign currency;

B. Three eighths, one fourth, one eighth or one twentieth, depending on whether these items come under subheadings (1), (2), (3) or (4) of A, above, of credits of any kind whatsoever, whenever these credits exceed one fifth of the bank's own resources and are used by a single client or by several clients who can be considered, from the point of view of the risks involved, as forming a single group, regardless of their legal status or standing. It is to be noted that when covered by bank acceptances or by nonrediscountable commercial bills, the fraction of credits of this type to be taken into account will be one fourth and one eighth, respectively.

Section II.—Classification of Banks

Art. 3. Banks will be classified once a year according to their risk ratio [*coefficient de classement*].

The risk ratio for each bank will be calculated on the basis of its average total weighted risks and its average total liabilities for the twelve-month period ending two months before the close of the financial year.

Each bank will be notified of its classification not later than two months after the end of the period mentioned immediately above.

Art. 4. The first category will cover banks with a risk ratio of less than thirty-five per cent. Risk ratios above this figure will be divided into separate categories, each category covering one step of seven per cent.

Section III.—Required Ratio of Own Funds

Art. 5. Banks must observe the obligatory ratio laid down for banks' own funds [capital plus reserves] by the end of the seventh month following the end of the preceding financial year.

This ratio is calculated on the basis of the total of the bank's own funds at the end of the seventh month, and of average total liability for the twelve-month period mentioned in the second paragraph of Article 3, above.

Art. 6. The minimum mandatory ratio is set at five per cent for banks falling within the first category as defined in Article 4, above. This ratio will increase by one per cent for each higher category up to a maximum of fifteen per cent.

Section IV.—Transitional Provisions and Abrogations

Art. 7. The first classification will be undertaken and notified to banks before the close of the financial year current at the date of publication of this Decision.

Notwithstanding the provisions of the third paragraph of Article 1, the second paragraph of Article 2, and the second paragraph of Article 3, if a bank so requests, the first classification and the corresponding mandatory ratio will be worked out on the basis of average total liabilities and average total weighted risks for the period current at the end of the month of publication of this Decision and terminating at the end of the ante-penultimate month prior to the close of the financial year. However, if such a request is presented by a bank whose financial year ends on December 31, 1965, the reference period will be extended from October 1965 to December 1965; in that case, classification will be notified by March 31, 1966 at the latest.

Notwithstanding the first paragraph of Article 5, banks may observe their legal ratio for the first time by the end of one year from the date mentioned in Article 5. However, in this case, by the due date banks must hold the funds which were required or would have been required under the Regulation of December 31, 1962 governing the solvency ratio.

Art. 8. The Regulation of December 31, 1962 governing the solvency ratio is hereby abrogated.

Art. 9. This Decision shall come into effect on the day of its publication in the *Moniteur belge* [October 26, 1963].

BRAZIL

An outline of the more detailed information needed follows:

1. Any deposit restrictions—re:

(a) Limits on deposits of resident nationals—domestic currency vs. foreign currencies, all banks, domestic banks vs. foreign banks.

Restricted to specific cases, all banks required to secure authorization by Central Bank.

(b) Limits on inflows of funds from abroad—all banks, foreign as opposed to domestic.

Restricted, specific cases, all banks.

(c) Foreign bank access to savings deposits.

No, only national banks.

(d) Codes of fair competition—impact on foreign banks of agreements restricting solicitation of deposits of other banks.

2. Reserve requirements—all banks, foreign vs. domestic:

(a) Direct reserve requirements—all banks, foreign vs. domestic—requirement that deposits be kept with central banks or government agencies.

Yes, 50 percent all banks, deposited in Banco do Brasil of subscribed capital, and two-thirds thereof within one year.

(b) "Special deposits".

10 percent of last year's exchange operations up to Cr \$1,000,000.00 and no less than Cr \$100,000.00 in either gold or Brazilian currency. 15 percent of sight deposits and 10 percent of time deposits.

(c) Secondary reserves.

(d) Liquidity ratios.

3. Priority investments—government securities, housing, development banks, long-term loans, etc.—all banks, foreign vs. domestic.

Privileged status to agricultural and livestock credits, also regions of high national interest. Other priorities to be determined by National Economic Council.

4. Credit ceilings—either re domestic inflation or balance of payments.

Variable, depending on decision by Central Bank.

5. Loan restrictions re classes of borrowers or uses of funds—also structural restrictions (such as prohibitions against underwriting)—all banks, foreign vs. domestic.

Both controlled, all banks. Underwriting restricted.

6. Interest rate limits—all banks, foreign vs. domestic.

Six percent on general loans. Banks may go up to 12 percent.

7. Exchange controls—all banks, foreign vs. domestic.

Daily report of amount transacted to Central Bank.

8. Central bank credit—access and cost—all banks, foreign vs. domestic. If there is nominal access, is there nevertheless discrimination?

Equal access when capital fully incorporated.

9. Bank examination—all banks, foreign vs. domestic.

All banks, regular intervals and at any time when so determined by authorities. Records and documents. Reports upon request.

10. Cartel restrictions—against particular operations? Need for cooperation? Big vs. little banks; foreign vs. domestic.

Foreign banks, the original jurisdictions of which restrict Brazilian banks, may only control 30 percent of shares in national banks.

11. Evenhandedness of application of regulation overall.

Reciprocity of treatment in accordance with foreign jurisdiction's standards applied to Brazilian banks.

CANADA*

The Canadian banking system consists of the Bank of Canada as the central bank and ten chartered banks. The Canadian Banking Act, 1967 places emphasis on the specific incorporation of the chartered banks rather than the general subject of banking. It does not define nor limit the business of banking and provides no general regulatory provisions on those agencies providing these services. There is a limitation on the amount of shares that may be held by nonresidents, but similar restraints are placed on corporate ownership in other business categories as well. There are, however, no restrictions on shareholding or the extent of activities of many corporations engaged in a wide range of banking activities with the exception that the words "bank," "banker," or "banking" cannot be used to indicate its business.

There has been a proliferation of institutions receiving deposits and making loans—resulting in a "dual banking system." The ability to operate outside the reserve and other requirements of chartered banks has favored the growth of these "non-banks."

*Prepared by Robert L. Nay, Assistant Chief, American-British Law Division, Law Library, Library of Congress, November 1975.

There is presently a great deal of agitation that all institutions performing banking functions be brought under some form of federal regulation. The next bank act revision, scheduled for 1977, will no doubt reflect some of the requested changes.

Foreign banking entities operate in Canada under virtually no control. They do not even need a special license. There are about 180 of these foreign financial institutions operating in Canada with assets exceeding \$1.8 billion.

1. Deposit Restrictions

The federal government requires that all federally chartered banks, trust companies and loan companies insure individual customer deposits up to \$20,000. This applies to foreign financial institutions as well. The requirement has been competitively advantageous for smaller banks and "non-bank" institutions.

a. Any person may make a deposit regardless of age, status or condition in life. The bank must pay the principal and interest on the order of such person, unless a formal action has been instituted against the bank before payment has been made.

b. There is an understanding with the government that banks can take foreign money on deposit from non-residents as long as it is not used to lend to Canadians. There is no limit on the inflow of funds from abroad as long as it is to be used abroad.

Deposits by U.S. residents have varied during the past 10 years between 11 percent and 46 percent of the total deposits in Canadian banks. Both the U.S. and Canadian guidelines have been responsible in the past for these fluctuations. Under the 1965 U.S. guidelines, financial institutions and commercial enterprises were requested to reduce their holdings of U.S. dollars outside the U.S., a substantial proportion of which were in Canadian banks. Under Canadian guideline 3, funds raised by the chartered banks in the form of increased liabilities to U.S. residents had to be used to increase claims or reduce liabilities in Canada. This prevented Canadian banks from borrowing funds in the U.S. and placing them in U.S. assets. It also served to increase the U.S. balance of payments deficit in terms of "liquidity definition," which was the reason for preventing it. Since 1971, the reduction in claims on U.S. residents enabled some of the banks to use funds raised from U.S. residents to reduce liabilities to Canadian residents.

c. There is no distinction made between a non-resident individual or banks as far as access to savings deposits is concerned.

d. Agreements among banks on interest rates on deposits and interest rates and charges on loans are prohibited. Banking in Canada freely competitive and this applies to deposit solicitation as well as interest rate limitation.

2. Reserve Requirements

The reserve requirements in the Banking Act apply only to the chartered banks and their branches and not to the non-bank financial companies or foreign agencies.

a. The reserve requirements against current account deposits are not to be less, on the average, than 12 percent and against deposits "payable after notice in Canadian currency," not less than 4 percent. The 4 percent applies to all savings deposits.

b. The banks may hold contingency reserves in addition to specific reserves for anticipated losses on particular accounts. The Inspector General of the Bank is entitled to know the amounts held by the banks for this purpose.

c. The chartered banks are required to hold a secondary reserve in addition to the primary reserves. The percentage of assets required to be held is subject to change by the Bank of Canada and may vary between 0 percent and 12 percent of bank deposit liabilities. This reserve is composed of: 1) notes and deposits with the Bank of Canada, 2) treasury bills with initial maturity of less than 1 year, and, 3) day loans to specific investment dealers.

No reserves need be held against debentures. Adequate assets against any liabilities payable in foreign countries must be maintained by any bank holding them. The latest determinable reserve ratios from July, 1975, are as follows:

| | <i>Percent</i> |
|---|----------------|
| Cash reserve ratio, actual (required)----- | 6.07 (6.02) |
| Secondary reserve ratio, actual (required)----- | 6.00 (5.50) |

This form of reserve distinction has in effect reduced the comprehensive reserve ratio of banks to about 6 percent.

d. Prior to the Bank Act, the liquid asset ratio varied between 15 and 19 percent based on agreements between the banks and the Bank of Canada. The Bank Act, 1967 made the liquid asset ratio a legal requirement which the Bank of Canada can vary from 0 to 12 percent over and above the cash reserves. One aspect of liquidity management that relates to reserve requirements may also involve the foreign exchange market, and the net foreign assets of the bank. Banks may compete for cash at a time of restrictive monetary policy by selling foreign currency assets and converting the proceeds into Canadian dollars. If the sale of funds is to a participant in the foreign exchange market other than the exchange fund, the bank selling the foreign dollars will gain at the expense of the bank in which the purchaser of the foreign dollars has an account. Balanced against this situation must also be the requirement to maintain a certain portion of foreign currency assets to meet any sudden reduction in foreign currency liabilities. Another qualifying aspect concerns the relative interest rates involved. The reduction in net foreign assets will be greater when the rate on the foreign liquid assets is low relative to Canadian rates.

3. *Priority Investments*

There is no established priority for investments. During 1974, the Bank of Canada had the following investment assets:

| | <i>Amount (thousands)</i> |
|---|-------------------------------|
| Treasury bills of Canada----- | \$1, 590, 311 |
| Other securities issued by Canada, maturing within 3 years----- | 2, 528, 675 |
| Other securities issued by Canada, not maturing within 3 years----- | 2, 859, 628 |
| Debentures issued by Industrial Development Bank----- | 891, 960 |
| Securities issued by the United Kingdom and the United States of America----- | 570, 039 |
| Other securities----- | 2, 633 |
| Total investments----- | 8, 443, 246 |

The investments of the chartered banks has been approximately 45 percent in Canada direct and guaranteed bonds; 35 percent Canada treasury bills; and 20 percent provincial and municipal bonds and corporate bonds and securities.

4. *Credit Ceilings*

The credit ceiling is influenced by the actions of the Central Bank, the Bank of Canada, and by the responses of the chartered banks to these actions. The Bank of Canada has used what is termed "moral suasion" to encourage chartered banks not to increase inflation either by curtailing credit to their resident customers or refusing to finance large transfers of funds from Canadian subsidiaries to the foreign parent firm.

5. *Loan Restrictions*

There are no restrictions placed on the persons or classes of persons who may borrow bank funds. The Bank of Canada must keep the public informed at all times of the minimum rate being used for loans and advances.

6. *Interest Rate Limits*

There are no interest rate limits. The interest rates that are applied by the various institutions do not distinguish between foreign and domestic clients.

7. *Exchange Controls*

No exchange control requirements are imposed on capital receipts or payments by residents or non-residents. The Minister of Finances and the Bank of Canada have asked Canadian borrowers to carefully explore the potentialities of the Canadian market before offering securities for sale abroad.

The Bank of Canada may buy and sell in the open market, inside or outside Canada, with or without the endorsement of a chartered bank. There are certain limitations on this power. The maturity of trade acceptances, bankers' acceptances, bankers' drafts and bills of exchange cannot exceed 90 days from the date of acquisition by the Bank. The maturity date for short-term securities of the Bank of England cannot be more than 6 months from the date the Bank acquires the security. If the Bank acquires any bills of exchange and promisory notes endorsed by a chartered bank and issued in connection with the production and sale of goods, the maturity date must be within 90 days of their acquisition. The maturity date is 180 days for those bills of exchange endorsed by chartered banks and issued in connection with the production or marketing of products of agriculture, forestry, mines and quarries, and the sea, lakes and rivers. The Bank of Canada may also buy and sell treasury bills or obligations of the United States.

The basic foreign exchange market is carried on through the chartered banks and the Bank of Canada. The brokers in Montreal and Toronto, where the chartered banks have their main offices, are appointed by the Canadian Bankers' Association. The foreign exchange market has a floating rate according to the supply and demand.

The Exchange Fund Account, with assets owned by the Bank of Canada and the Canadian government, control the movements of the exchange rate by either buying or selling Canadian dollars according to the state of the market. The fund has been primarily concerned with stabilizing the rate between the American and Canadian dollars. The ebb and flow of foreign exchange stabilization operations influence the cash position of the government and the credit conditions of the country.

8. *Central Bank Credit*

The Bank of Canada is the fiscal agent for the government with standard powers to grant advances, deal in gold and foreign exchange, etc. Charter banks may borrow from the Bank of Canada in order to increase their reserves. The rate of interest charged by the central banks is usually higher than current short term rates of interest. This means that banks will usually get additional cash by liquidating day-to-day loans or treasury bills rather than borrow from the Bank of Canada. A second advance within a month or an advance in excess of the amount specified will require an even higher rate. The change in these rates is often taken as a shift in monetary policy that will affect the market fluctuations of all other rates.

9. *Bank Examination*

The chartered banks of Canada are inspected by the Inspector of Banks and his staff at least once a year, and the results of this inspection and inquiry are given to the Minister of Finance. The Minister shall also require that the banks make a monthly report on the prescribed form of all the information necessary to make a determination about the amount of reserves held the previous month. In addition, the Minister may designate the form prescribed for reporting the bank's assets and liabilities that are valued or payable in foreign currencies. The banks must also send in an annual report known as Schedule Q at the end of each financial year.

Other annual reports showing the return of loans, deposit liabilities, and the names of shareholders, including the total number of shares held by shareholders, with recorded addresses outside Canada and those holding shares with a par value of more than \$5,000 whose recorded address is inside Canada but is known by the bank to be residing outside Canada, must be sent to the Minister and to the Bank of Canada. The Minister may ask for additional reports if he so desires on other subjects connected with banking. These reports are also subject to review by the Inspector. Canada does not have any foreign banks to inspect.

10. *Cartel Restrictions*

The Bank Act was partly the result of a policy which wanted to foster competition among banks. The interest ceiling was removed, inter-bank agreements regarding charges and rates were prohibited, and intercorporate links between banks and other institutions were restricted.

Uniform practices on rates and charges have developed through the Canadian Bankers' Association, which has been granted authority to operate clearing house arrangements. The banks in practice, have been exempt from the anti-monopoly laws of the country, and unlike many other sectors of the economy, all direct foreign competition in banking has been indirectly excluded by law.

11. *Evenhandedness Application of the Regulations*

Prior to the enactment of the Banking Act, the Royal Commission on Banking and Finance had recommended certain actions that were not carried out, that would have provided a more even distribution of control, namely:

a. The act should define the business of banking and bring all companies engaged in banking under the act, requiring reserve deposits, etc. This, however, would have involved an intrusion into the area of Federal-provincial relations, since many of the deposit taking organizations are chartered by provincial governments.

b. Foreign banks should be allowed to establish agencies in Canada and engage in all types of banking activities except the acceptance of deposits. This would have made the position of foreign banks in Canada comparable with that of foreign banks in New York City. The fact is that with 180 foreign financial institutions presently operating in Canada, with assets of \$1.8 billion, many see the lack of regulation of this sector as a threat to the continued maintenance of a sound financial system.

c. The existing right of the Canadian Bankers' Association to operate the clearing system should be withdrawn and all deposit-taking institutions offering checking privileges should have access to the Bank of Canada for settling balances. This would have eliminated the present fee required of these institutions for clearing checks and payment orders through one of the chartered banks.

Although these recommendations were not carried out, the government did not decide against them, rather action was just postponed. There will certainly be further discussion on the issues outlined as time nears for the 1977 act revision.

CAYMAN ISLANDS*

The first bank (Barclays Bank DCO) opened in the Cayman Islands in 1953. It had no competitor until 1964. However, at present there are over 170 licensed banks and trust companies operating on the Islands. The special features of the Companies Law and Trust Law (including guarantee from the Government of freedom from taxation, usually for a period of 20 years) have proved a great attraction to international business and finance. The Colony does not tax individual or corporate income, capital gains or inheritance, and there is no treaty requiring the Cayman Islands Government to furnish information to any other Government.

1. Any Deposit Restrictions

Deposit restrictions on the banks vary according to the type of license issued to it. There are two main classifications of banks and trust companies in the Cayman Islands. The main division is into Class A and Class B licenses.

A Class A license gives the holder the right to carry on a banking and/or trust business, both inside and outside the Colony. A Class B license is subdivided into unrestricted and restricted categories. The unrestricted type entitles one to carry on a banking and/or trust business anywhere outside the Cayman Islands subject to its furnishing an undertaking not to carry on business with the public of the Cayman Islands. A Class B, restricted license gives the holder the right to carry on a banking and/or trust business outside the islands but only

*Prepared by Krishan S. Nehra, Senior Legal Specialist, American-British Law Division, Law Library, Library of Congress, November 1975.

with specifically named clients of which the Government must be notified at the time of the issuance of the license. The list can be increased later to a limited extent.

Class A license holders are more often branches of major international banks and Class A trust company licensees are usually a subsidiary or affiliate of an international bank, although a small number of private banks and trust companies hold Class A licenses.

The applicant for a license must give a written undertaking that it shall not solicit or receive funds by way of trade or business from persons or companies other than those listed, and that it shall not solicit or receive such funds from the public of these islands. The terms of these undertakings are incorporated as a condition in the license.

2. Reserve Requirements

The licensee must set apart a fully paid up capital, before or at the time it commences business (of at least \$200,000) as the Administrator in Council may in his discretion determine. In lieu of setting apart the stated capital, the licensee may choose to give a guarantee for a similar sum under a seal provided by the holding or parent or another company approved by the Administrator.

3. Priority Investments

There are no priority investments stipulated in the banking law.

4. Credit Restrictions

There is no provision relating to credit ceiling. Every bank is expected to carry on its business without detriment to the interests of its depositors or creditors. The Administrator may from time to time require a licensee to rectify any matter in case of need, and on its failure to do so, may revoke the license.

5. Loan Restrictions

There are no lending restrictions.

6. Interest Rate Limits

There are no limitations on interest rates. Banks compete in their interest rates.

7. Exchange Controls

The banks and trust companies law does not provide for any exchange controls. It is unlikely that the exchange controls, if any, could be anything more than minimal. Of all the tax havens around the world, the Cayman Islands has grown most rapidly during the last 12 years. This fact would tend to point to an absence of foreign exchange controls.

8. Central Bank Credit

There is no central bank and nothing like a Federal Reserve System for banks to fall back upon for financial help and there is no insurance on deposits.

9. Bank Examination

The Administrator in Council may call for statements of accounts and obligations from licensees whenever it appears likely that the licensee may become unable to meet its obligations. He may, addition-

ally, ask for audited statements of the licensee's affairs and/or any other information that he may consider appropriate. The Inspectors of Banks and Trust Companies, also a Government Officer, helps the Administrator by constantly supervising all licensed banks and has powers to look into records and account books, etc.

10. *Cartel Restrictions*

No shares in a company or certificates of deposit or any other securities of such a licensee company can be transferred without the prior approval of the Administrator in Council.

11. *Evenhandedness of Application of Regulation Overall*

The authorities endeavor to deal with all banks evenhandedly. However, any decisions of the Administrator in Council affecting a bank's license, is subject to judicial scrutiny, by way of appeal within 21 days, by the Grand Court of the Cayman Islands. This ensures fair deal even further.

CHILE

An outline of the more detailed information needed follows:

1. Any deposit restrictions—re:

(a) Limits on deposits of resident nationals—domestic currency vs foreign currencies, all banks, domestic banks vs foreign banks

No limits in domestic currency.

(b) Limits on inflows of funds from abroad—all banks, foreign as opposed to domestic

Subject to regulations by the Central Bank.

(c) Foreign bank access to savings deposits: Not applicable at present.

(d) Codes of fair competition—impact on foreign banks of agreements restricting solicitation of deposits of other banks

2. Reserve requirements—all banks, foreign vs domestic.

(a) Direct reserve requirements—all banks, foreign vs domestic—requirement that deposits be kept with central bank or government agencies

All banks must keep a legal reserve fund equivalent to 25 percent of paid in capital. Also, a deposit (*encaje*) in the Central Bank is needed.

(b) "Special deposits"

A deposit as guaranty of compliance of the General Banking Law is required.

(c) Secondary reserves

Reserves in excess of 50 percent of paid in capital are called "additional reserve."

(d) Liquidity ratios

3. Priority investments—government securities, housing, development banks, long-term loans, etc.—all banks, foreign vs domestic

All banks have to purchase some shares of the Central Bank. Banks may invest in housing in order to comply with general housing legislation.

4. Credit ceilings—either re domestic inflation or balance of payments: Yes.

5. Loan restrictions re classes of borrowers or uses of funds—also structural restrictions (such as prohibitions against underwriting)—all banks, foreign vs domestic

There are limits (a percentage of capital and reserves) in the amount of the loans that may be granted to one individual, that varies according to the classes of borrowers.

6. Interest rate limits—all banks, foreign vs domestic

Yes, according to regulations of the Central Bank.

7. Exchange controls—all banks, foreign vs domestic

Yes, according to regulations of the Central Bank.

8. Central bank credit—access and cost—all banks, foreign vs domestic.

If there is nominal access, is there nevertheless discrimination?

According to General Banking Law, all banks have equal access. For present situation, *see* footnote 1.

9. Bank examination—all banks, foreign vs domestic.

What is the interval and nature of examinations?

All banks are inspected by the Superintendency of Banks, even the "representation offices" of foreign banks. Examinations cover legality of the operations and financial matters. Financial reports must be issued four times a year and inspections may be made at any time.

10. Cartel restrictions—against particular operations? Need for cooperation? Big vs little banks; foreign vs domestic

None applicable to present situation. *See* footnote 1.

11. Evenhandedness of application of regulation overall.

See footnote 1.

COLOMBIA

An outline of the more detailed information needed follows:

1. Any deposit restrictions—re:

(a) Limits on deposits of resident nationals—domestic currency vs foreign currencies, all banks, domestic banks vs foreign banks.

Cannot request deposit from nationals.

(b) Limits on inflows of funds from abroad—all banks, foreign as opposed to domestic.

None.

¹ The General Banking Law of Chile (decree-with-force-of-law 260, Mar. 30, 1960) accepts foreign banks operating in Chile as commercial banks; in fact, several foreign banks operated that way until 1971. From 1971 to September 1973, the Chilean Government, without repealing the law concerning private banks, purchased directly the majority of the shares of all domestic banks except one, and all the shares of the foreign commercial banks. Since then, all these banks have been administered by the board of directors appointed by government agencies and in some cases by the Superintendency of Banks itself. By decree-law 231 of December 24, 1973, it was established that from that date up until December 31, 1974, no new commercial bank could be established in Chile. It also stated that "since that date no branch or agency of foreign banks can be established with the exception of those which are state-owned in their country of origin." "The representations (*representaciones*) of foreign banks can effect the operations specifically or generically permitted by the Superintendency of Banks, according to article 35 of the General Banking Law, with the sole limitation that they are not allowed to receive deposits or give loans in national currency."

Through decree-law 600 of July 13, 1974, the Foreign Investment Statute, Chile liberalized its legislation concerning foreign investment, but this statute does not refer specifically to banking.

In 1975 the Chilean Government announced, as a matter of policy, that some state-owned commercial banks would again become private banks, in national hands. According to the information available, no new measures have been taken concerning foreign banks.

Chile is also a member of the Andean Pact (The Cartagena Agreement).

The answers contained in this questionnaire must be understood against this background.

(c) Foreign bank access to savings deposits.

None.

(d) Codes of fair competition—impact on foreign banks of agreements restricting solicitation of deposits of other banks.

2. Reserve requirements—all banks, foreign vs domestic.

All banks must have reserves. 20 percent on savings deposits; 10 percent on time deposits.

(a) Direct reserve requirements—all banks, foreign vs domestic—requirement that deposits be kept with central bank or government agencies

Reserves to be kept with *Banco de la República*.

(b) "Special deposits"—Special reserve requirements are to be met when accepting savings deposits.

(c) Secondary reserves.

(d) Liquidity ratios—When savings deposits exceed 500,000 *pesos*, the reserve should be 75,000 and thereafter for each \$25,000, 1 *peso* for each 10 *pesos*.

3. Priority investments—government securities, housing, development banks, long-term loans, etc.—all banks, foreign vs domestic.

All banks are subject to priority investments as regulated by law (article 118, law 43 of 1923). Basically, they are mortgage bonds issued by the Central Mortgage Bank, agricultural bonds and bonds of the internal debt.

4. Credit ceilings—either re domestic inflation or balance of payments.

5. Loan restrictions reclasses of borrowers or uses of funds—also structural restrictions (such as prohibitions against underwriting)—all banks, foreign vs domestic.

Loans are classified in accordance with the destination to be given to the loaned money. They are subject either to a mortgage or a pledge. Loaned money must be invested in the economic sector referred to in the loan application. Foreign banks cannot grant loans to nationals.

6. Interest rate limits—all banks, foreign vs domestic.

All banks subject to the provisions of article 5 of law 16 of 1936. On term deposits, the interest may go up to 23 percent.

7. Exchange controls—all banks, foreign vs domestic.

All banks subject to the provisions of chapter II of decree-law 444 of Mar. 22, 1967.

8. Central bank credit—access and cost—all banks, foreign vs domestic. If there is nominal access, is there nevertheless discrimination?

May cost between 12.25 percent to 22 percent difference between the rates paid and collected from one to four percent.

9. Bank examination—all banks, foreign vs domestic. What is the interval and nature of examinations?

All banks are to be examined by the Banking Superintendent at least once a year.

10. Cartel restrictions—against particular operations? Need for cooperation? Big vs little banks; foreign vs domestic.

11. Evenhandedness of application of regulation overall.

Foreign banks are subject to restrictions adopted by the Cartagena Agreement of 1969.

FEDERAL REPUBLIC OF GERMANY*

1. *Deposit Restrictions*

Banking involving depository functions is generally subject to official approval in the Federal Republic of Germany. Such approval may be refused not only because of insufficient funds or unreliability or incompetence of the managers—a provision which affects both foreign and domestic banks—but also because of the absence of any economic necessity. Section 53, paragraph 2, clause 5, of the Banking Law of July 10, 1961, as amended reads:

Each branch office of a foreign business enterprise must have a permit to undertake business operations. The permit may be refused when its granting is not justified upon consideration of overall economic needs.

The constitutionality of this provision has been stressed by German legal writers on the ground that the prohibition to examine economic necessity in the case of admission of new banking enterprises applies only to domestic credit institutions, but in no way to foreign ones. Furthermore, a too extensive opening of branches by foreign banks may disturb the general pattern of German banking. However, the requirement of economic necessity may be omitted by concluding an international treaty. This has been the case with respect to the States that are members of the European Economic Community.

In this connection it should be mentioned that foreign legal entities require a general permit to do business in the Federal Republic of Germany. To open a banking business branch in Germany, a special permit, which replaces the above-mentioned general permit, is required for foreign banking enterprises. Also the entire banking business of each German branch is subject to regulatory provisions of the above-mentioned Banking Law of 1961 (*Gesetz über das Kreditwesen*, official abbreviation KWG). Among them is the provision that at least one person domiciled in the area where the Basic Law of Germany has effect must be responsible for the internal management and representation of each branch, and upon him must fall the responsibilities of a representative under the Banking Law. Each branch office must keep separate books in accordance with the provisions of the Commercial Code on ledgers, which are subject to examination by German certified [public] accountants. Finally, for litigation relating to the business of a branch office, the statutory competence of the German local courts may not be excluded by agreement.

With respect to capital inflow and related matters, the International Monetary Fund's *Twenty-Sixth Annual Report on Exchange Restrictions 1975* on page 198 states:

Certain types of capital inflows are restricted. The prior approval of the Bundesbank is required for sales to nonresidents of all domestic money market paper and of fixed-interest securities of German issuers with less than four years remaining to maturity, as well as for *en pension* transactions with nonresidents involving fixed-interest securities of German issuers where such securities are eligible for delivery in less than four years; approval is not normally granted. Nonresidents' direct investment or personal use, and purchases of German or foreign equities do not require approval. Interest payable to nonresident holders of fixed-interest securities of German issuers is subject to a withholding tax of 25 percent ("coupon tax").

*Prepared by Dr. Armins Rusus, Senior Legal Specialist, European Law Division, Law Library, Library of Congress, October 1975.

There are also investment restrictions for foreigners to be observed by banks both domestic and foreign banks. Nonresidents are required to obtain the prior approval of the German Federal Bank should they wish to purchase from a resident party domestic treasury bills, noninterest-bearing treasury bonds, and certain other instruments denominated in German marks. The same requirement applies if a nonresident wishes to acquire a claim against a resident party from another resident party, subject, however, to a basic allowance of DM 100,000 per calendar year. Furthermore, German banks are precluded from paying interest on bank accounts maintained by nonresidents, with the sole exception of saving accounts of individuals up to the amount of DM 50,000. These are the only restrictions on the importation or repatriation of capital. All earnings from German investments may be transferred abroad. However, the Federal Bank must be informed for statistical purposes, according to Juergen Killius in *Business Operations in West Germany*, A-1 to A-2 (1975).

The same survey of business operations in the Federal Republic of Germany includes the following information on two recent cash deposit regulations affecting domestic and foreign banks alike:

As of March 1, 1972, an ordinance was issued by the Federal Ministry of Economics Finance pursuant to Section 6A of the Foreign Trade Law [of April 28, 1961] which requires resident individuals, corporations and commercial partnerships to make a cash deposit of a specified percentage of money borrowed abroad with the German Federal Bank. At present, a deposit rate of 20 percent is applicable. The amount of loans is computed each month (base month) on the average daily loans, and there is a basic allowance for the first DM 100,000. During the second month following the base month, the cash deposit has to be maintained in a non-interest bearing special account with the German Federal Bank. The amounts borrowed abroad and the amounts to be deposited have to be reported to the German Federal Bank no later than on the 20th day of the calendar month following the base month.

It is the purpose of these cash deposit requirements to supplement the minimum reserve regulations applicable to banks and to provide the German Federal Bank with a means of controlling the influx of foreign funds. For these reasons, the ordinance provides for an exemption of borrowing loans for the purpose of investing abroad, organizing foreign companies, establishing branch offices or permanent establishments abroad, or for the acquisition of foreign enterprises.

Since the term "resident" for the purposes of Foreign Trade Law includes German branch offices and permanent establishments of foreign enterprises, and since such outlets are treated like independent entities in relation to their head offices or other branch offices, the ordinance has a significant impact on the financial arrangements between them. The German Federal Bank summarized its interpretations of the ordinance in a Decree of May 29, 1974, which discusses, *inter alia*, the treatment of the assignment of claims against resident parties to a nonresident party, contributions by nonresident parties to their German branch offices, the contribution of capital to German corporations by nonresident shareholders, and the treatment of roll-over facilities. . . .

No provision could be found which would not allow foreign banks to accept savings deposits. Inasmuch as, under the Foreign Trade Law and the regulations implementing its provisions, all transactions in principle are permitted except those which are specifically prohibited, and inasmuch as German branch offices and permanent establishments of foreign banks are included in the category of "resident" enterprises, there exists no discrimination with respect to handling savings deposits.

Both domestic and foreign banks must refrain from misleading advertising and unlawful soliciting of accounts. Section 23 paragraph 2 provides:

In order to counteract abuses in the soliciting of business by credit institutions, the Federal Banking Supervisory Office may prohibit certain kinds of solicitation.

2. Reserve Requirements

The Deutsche Bundesbank requires both domestic and foreign banks to keep minimum reserves and can vary the amount of these. The Bundesbank can raise its discount rate and by doing so make it more expensive for the banks to obtain funds from it by rediscounting the trade or commercial bills. The Bundesbank can also alter the credit lines which it grants to the other banks for that purpose and can conduct open-market operations in short and medium term Government paper. In the last resort, the Bundesbank can restrict credit.

The provisions on the minimum reserve policy of the Deutsche Bundesbank are included in the Law Concerning the Deutsche Bundesbank of July 26, 1957, as amended on July 22, 1969. The pertinent section reads as follows:

Sec. 16. Minimum reserve policy. (1) For the purpose of influencing the circulation of money and the supply of credit, the Deutsche Bundesbank may require the credit institutions to maintain with it, on giro account, balances (minimum reserve) equal to a specified percentage of their liabilities arising from sight, time and savings deposits and from short- and medium-term borrowings, with the exception of liabilities to other credit institutions required to maintain minimum reserves. The rates fixed by the bank shall not exceed thirty percent for sight liabilities, twenty percent for time liabilities, and ten percent for savings deposits. Within these limits the Bank may fix the rates at various levels in accordance with general principles, in particular for individual groups of institutions, and may exclude certain liabilities from the computation. In the case of a credit institution as defined in Section 53 of the Banking Law, a net liability on intercompany account shall likewise be deemed to be a liability in respect of sight deposits within the meaning of sentence 1.

(2) The average monthly balance of a credit institution with the Deutsche Bundesbank (actual reserve) must not be less than the percentages, fixed in accordance with paragraph (1), of the monthly average of that institution's liabilities subject to the reserve requirement (required reserve). The Bank shall issue detailed regulations concerning the computation and establishment of the actual reserve and of the required reserve.

(3) On the amount by which the actual reserve falls short of the required reserve the Deutsche Bundesbank may charge a special interest rate of up to three percent above the current rate for advances against securities. The special interest rate will not be charged where the shortfall was due to unforeseeable circumstances and thus unavoidable, or where the credit institution concerned has gone into liquidation. The Deutsche Bundesbank shall report any substantial or repeated shortfall to the Bank Supervisory Authority.

(4) Agricultural credit cooperatives which are members of a regional central institution and maintain no giro account with the Deutsche Bundesbank may keep their minimum reserves with their central institution; the latter shall maintain balances in an equal amount at the Deutsche Bundesbank.

(5) The minimum reserves to be maintained under this Law shall be counted toward the liquidity reserves to be maintained under other laws.

With respect to "special deposits," secondary reserves, and liquidity ratios, discrimination against foreign banks apparently does not occur. The main provision on liquidity is contained in Section 11 of the Banking Law which reads as follows:

Sec. 11. Liquidity. Credit institutions shall invest their funds in such a way as to safeguard adequate solvency at all times. In agreement with the Deutsche Bundesbank, the Federal Banking Supervisory Office shall establish principles according to which it shall judge, as a rule, whether the liquidity of credit institution is adequate; the associations representing the credit institutions shall first be heard. The principles shall be published in the *Bundesanzeiger*.

At the present time the liquidity of credit institutions, including foreign banks, is governed by "Notice of the Deutsche Bundesbank No. 1/69 on the Principles Governing the Capital Resources and

Liquidity of Credit Institutions." It was issued by the Federal Banking Supervisory Office on January 20, 1969, and entered into force on January 1, 1969.

Principle I provides that a credit institution's credit to business enterprises, individuals, and other credit institutions, plus its participation, less the global value adjustment, shall not exceed 18 times its pledged capital resources. Credit shall be understood to include short, medium, and long term credit. However, there shall be included only 50 percent of long term credit that serves as cover for debt certificates, that is, granted against a real estate lien in connection with mortgage lending or against equivalent liens on ships, or that is fully guaranteed by domestic corporate entities or public law institutions.

Principle II provides *inter alia* that a credit institution's investments in long term credit, syndicate holdings, participation, securities not quoted on the stock exchange, and in land and buildings shall not exceed its long term financial resources. Among others, these are considered long term financial resources: capital resources; the credit institution's own bonds in circulation; bonds sold in advance of issue; long term loans acquired; 60 percent of the savings deposits; and 10 percent of the sight and time deposits of nonbanks.

Principle III provides that a credit institution's debtors, its bills drawn on borrowers, dividend-bearing stock exchange securities, and "other assets" shall not exceed the total of thereafter enumerated resources for each of which a different percentage is specified.

With respect to the liquidity ratios, the following survey of the building ratios for commercial banks taken from a comparative work on banking appears to be, on the whole, correct at the present time, though these ratios may not apply to other groups of credit institutions:

Guiding Ratio I: The total of the short-term and medium-term lendings shall not exceed 18 times the liable funds.¹

Guiding Ratio II: The debtors² shall not exceed 60 percent of liable funds and deposits.

Guiding Ratio III: The liquid resources³ shall not be less than 20 percent of the borrowed funds.⁴

3. Priority investments

No provision was found requiring banks to hold specified amounts or percentages of assets in government securities. However, investments in government securities may be included as part of reserves. Likewise, supervisory authorities may permit government-guaranteed issues to be included in meeting capital requirements. This type of regulations, however, is not applied to discriminate against foreign banks.

4. Credit ceilings

No indication was found that banks would be held to limit extensions of credit to a specified percentage of the credit extended by the respective banks at some earlier date. However, if credit ceilings would be practiced they would be applicable both to domestic and foreign banks

¹ The liable funds are the capital and reserves, as defined in the Law on the Credit system, plus the global value adjustment permitted under the tax laws.

² The debtors comprise credits in current account and acceptance credits.

³ The liquid funds comprise cash holdings, balances at the Deutsche Bundesbank and Postal Cheque Offices, cheques and bills, German and certain foreign Treasury bills and Treasury bonds.

⁴ The borrowed funds comprise deposits, moneys and loans taken, the bank's acceptances and promissory notes in circulation.

since there are no rules singling out domestic banks for privileged treatment.

5. *Loan restrictions*

The following information is from the First National City Bank of New York, *Foreign Information Service. Annual Summary of Exchange and Foreign Trade Regulations as of January 1, 1973*:

Loans to German residents. Nonresidents may grant loans in Deutsche marks or any foreign currency. Residents may provide security, in particular, guarantees, pledges, security assignments or transfers, to nonresidents.

To help ward off further foreign currency inflows, the German government announced in March 1972, retroactive to January 1, a cash deposit requirement against foreign borrowings by corporations in Germany. Effective July 1, 1972, requirement was raised to 50 percent and effective January 1, 1973 it applies to borrowings in excess of DM50,000. Borrowings for export transactions are exempt. The funds set aside under this requirement are held in the form of noninterest-bearing cash deposits at the central bank.

Loans to nonresidents. Residents may grant loans to non-residents in Deutsche marks or foreign currencies without restriction as to duration or amount and may request nonresidents to provide security.

6. *Interest rate limits*

Interest rate limits are determined by the Deutsche Bundesbank. In 1973, for example it raised the discount rate to 5 percent in January, to 6 percent in May, and to 7 percent in June.

7. *Exchange controls*

The following is a survey of exchange controls and currency transferrability taken from: Franz Pick, *1974 Pick's Currency Yearbook* 212 (1975).

Currency transferrability

Residents are considered to be physical persons and legal entities domiciled or normally resident in West Germany. They can import and export unlimited amounts of German banknotes, maintain bank accounts abroad, and obtain any amount of foreign currency for travel abroad. Residents can own, deal in, and import and export gold. Domestic sales of gold and gold coins that are no longer legal tender are subject to 11 percent value-added tax, or 5.5 percent where assessment base is more than 250 percent of fine gold value. Gold coins that are still legal tender are exempt from the value-added tax. Commercial transfers to and investments in all currency areas are without limitation. Investments in foreign countries can be made freely. Foreign securities may be purchased, traded, exported and imported without restriction. Some specified goods need import licenses. Exports of a few items require licenses; export of other is free.

Nonresidents can freely import and export national banknotes. Interest payments on nonresident savings accounts in excess of DM50,000 are banned, while interest payments on other nonresident deposits require prior authorization. Nonresidents cannot purchase fixed-interest German securities of less than four years maturity or other money market paper without prior approval. The purchase by nonresidents of monetary claims on German residents exceeding DM100,000 is banned. Other German securities—including shares—can be freely purchased. There are no investment restrictions on real estate purchases for personal use. Earnings of foreign capital in Germany are freely transferable abroad, as is income from German securities, except that debentures are subject to a 25 percent withholding tax on interest. Minor regulations exist for some transactions connected with motion pictures, insurance and transportation.

8. *Central Bank Credit*

Section 15 of the Deutsche Bundesbank Law of July 26, 1957, authorizes the Deutsche Bundesbank to implement the credit and monetary policy. It reads:

Sec. 15. Discount, credit, and open market policies—For the purpose of influencing the circulation of money and the supply of credit, the Deutsche Bundesbank shall from time to time fix the interest and discount rates to be applied to its transactions and shall determine the principles governing its credit and open market operations.

Whether the Deutsche Bundesbank discriminates against foreign banks doing business in the Federal Republic of Germany in terms of access to its services and the cost of discount is not known here. No provision was found in the available legal sources prohibiting United States banks from having direct access to the Deutsche Bundesbank.

9. Bank Examination

All banks, foreign and domestic, must report their activities and submit to periodical examinations by supervisory examining agencies. A survey of German banking law describes the pertinent provisions and procedures as follows:

Credit institutions are required to submit monthly returns to the Bundesbank without delay. If monthly balance sheet statistics are prepared in accordance with Art. 18 of the Law Concerning the Deutsche Bundesbank, these are deemed to meet the requirement of the first sentence of Art. 25(1) of the Banking Law. The Bundesbank shall transmit these monthly returns to the Banking Supervisory Office with its comments, unless the Office waives this requirement (Art. 25(2)).

Credit institutions shall submit to the Banking Supervisory Office and the Bundesbank without delay their approved annual statement of accounts, comprising the annual balance sheet and the profit and loss account and their annual report, if any (Art. 26).

Art. 26a provides that credit institutions may, in their balance sheets, assess claims and securities at lower values than those prescribed or admissible under Art. 155 of the Law on Shares of September 6, 1965, if such assessment is reasonably necessary to allow for the special risks involved in carrying on credit business.

Before being approved, a credit institution's annual statement of accounts, including the annual report insofar as it explains the annual statement of accounts, shall be audited by one or more auditors (Art. 27(1)). Art. 28 sets forth rules governing the appointment of auditors and requires the credit institution to notify the Banking Supervisory Office of the auditor which it has selected. The Office may, within a month after receipt of such notification, require the appointment of another auditor if this is necessary for the purpose of attaining the object of the audit. Upon request by the Banking Supervisory Office, the auditor shall explain the audit report to that Office and to the Bundesbank and shall give information regarding his findings in the course of the auditing (Art. 29(1)).

Credit institutions engaged in the securities business or in the safe-custody business (see Art. 1(1), items 4 and 5) shall normally be examined once a year by so-called deposit examiners appointed by the Banking Supervisory Office; the right to appoint such examiners may in individual cases be conferred on the Bundesbank (Art. 30).

Under Art. 31 of the Law, the Federal Minister of Economics may, after hearing the Bundesbank, exempt all or certain groups of credit institutions from specified provisions of the Law and may delegate this power to the Banking Supervisory Office; Art. 31(2) gives to the Office the power to grant certain exemptions.

10. Cartel Restrictions

Under German law, competition is protected in two directions—against unfair practices and against restrictive practices. The provisions on restrictive practices guarantee freedom of competition. The Law Against Restraints of Competition (Cartel Law) of July 27, 1957, as amended, is aimed at securing freedom of competition and preventing economic power from impeding competition. This aim is stated as follows in Section 1 of the Law:

Agreements made by enterprises or associations of enterprises for a common purpose and decisions of associations or enterprises are ineffective insofar as they are likely to influence, by restraining competition, production or market conditions with respect to trade in goods or commercial services. This shall not apply where this law provides otherwise.

The Cartel Law applies to domestic and foreign banks alike, and the Federal Cartel Office keeps guard over any violation of the law.

11. Evenhandedness of Application of Regulation Overall

No information on this subject could be located in the Library of Congress by this reporter.

FRANCE*

The banking industry in France is regulated by the Laws of June 13 and 14, 1941; the Law of December 2, 1945; and two Decrees of May 25, 1946, as amended. Among new legislative acts concerning banking should be mentioned Law No. 75-601 of July 10, 1975, *Modifying the Conditions Concerning the Requirements of Nationality for the Exercise of the Banking Profession and Certain Financial Professions, and Relating to the Functioning of Foreign Banks*. Provisions concerning banking activities reserved to French nationals were amended in the sense that nationals of the European Economic Community were put on an equal basis with French nationals. In addition, Article 15 of the Law of June 13, 1941, was amended as follows: "The provisions of the present text shall apply to the Foreign banks." By this amendment, a special register for foreign banks was abolished, and now foreign banks are subject to the same rules concerning registration and functioning as the national banks. The previous provisions of Article 15 on the criteria of the nationality of banks were also abolished.

A committee report sent to the French National Assembly at the time of the voting on the 1975 Law stated:

The extent of this text [of the Law of July 10, 1975] herein submitted is relatively limited. First, the proposed legislative modification is due to a decision made by the Council of Ministers of the European Economic Community, which France is required to apply; and the governmental project represents to a certain degree a codification of the European legislation inside our legislative structure.

Second, the statutory power which permits the Government to regulate banking activities for reasons of political economy is in no way modified, and the discretionary power which it exercises remains complete in this respect.

Finally, internationalization of banking operations in the Western World is henceforth an accepted fact, and the evolution which has been recognized over the last 14 years is not expected to be modified by the adoption of this legislative bill. Just as French banks have operated in foreign countries, most of the important foreign banks henceforth may exercise their activities in France, either as agencies or as subsidiaries, without it being necessary to distinguish particularly between those countries of the Common Market and those attached to states not part of the European Economic Community.

The new proposed legislation abandons all criteria of nationality so that all banks having their head offices [registered offices] located outside the national territory are considered as foreign banks, [with] banks of states [that are] members of the European Economic Community naturally benefiting from particular prerogatives.

*Prepared by Timothy Cayton, Legal Specialist, European Law Division, Law Library, Library of Congress, October 1975.

Those foreign banks established in France will no longer be entered on a special list but will be included on one single list with all [banking] establishments exercising their activities in France.

Under French law, private banks, aside from those having a special status, are classified as deposit banks (*banques de dépôt*), commercial banks (*banques d'affaires*), or banks of medium and long term credit (*banques de crédit à moyen et long term*). Each category is subject to different provisions of the law prescribing minimum capital requirements, limitations on investments, and, above all, the sources of bank funds.

In the application for entrance in the register, as required by law, each applicant must indicate in which class of banks mentioned above the bank should be listed. In addition to meeting procedural requirements, a prospective entry must be warranted "by general or local economic needs" (Art. 10 of the Law of June 13, 1941).

The Laws of 1941 created three regulatory organs, each having specifically enumerated powers over banking operations. The National Council of Credits (Conseil national du Crédit) establishes general monetary and financial policies, banking guidelines, and credit restrictions which are executed through the Bank of France. The Council has regulatory power of a discretionary nature affecting individual banks and banking institutions. All decisions of an individual nature, however, may be appealed to the Commission of Bank Control (Commission de Contrôle des Banques), which is also responsible for surveying and monitoring the accounts and books of established banks. Decisions of the Commission are final, except those of a general nature which are susceptible to appeal to the Council of State, the highest administrative tribunal in the land. The Professional Association of Bankers (Association professionnelle des Banques), in which every banker is required to take part, assures liaison between the superior governing organs and the individual banks, acts as a consultative assembly, and takes disciplinary action against member banks. Decisions of that body are subject to appeal before the Commission. The decisions of these regulatory organs are susceptible to constant change, since they reflect the economic environment and the monetary situation.

1. Deposit Restrictions

(a) *Limits on Deposits of Resident Nationals*

There are no restrictions placed on deposit and investment banks concerning funds received from nationals. Medium and long term banks, however, are prohibited from receiving funds from the public at large through deposits for a term of less than 2 years, except by special authorization by the Commission.

(b) *Limits on Inflows of Funds from Abroad*

Restrictions on foreign currency deposits or deposits by nonresident nationals are indirect as well as direct and operate primarily through exchange rates, convertibility, and foreign exchange regulations.

A nonresident account in francs may be freely opened by an authorized bank for nonresidents, including French nationals (other than French officials) who have been residing abroad for at least two years. All overdrafts and advances on nonresident-held franc accounts are subject to general or specific permission.

For a discussion of these points and of any limits on the flow of funds from abroad, *see* the discussion below entitled "Exchange Controls."

(c) *Foreign Bank Access to Savings Deposits*

No limitations concerning access to savings deposits by foreign banks could be located, except those which are established by laws applicable to a certain group of banks, national as well as foreign.

(d) *Codes of Fair Competition*

Banking institutions are legally established as general partnership, limited or stock partnerships, or corporations and are required to follow the provisions of laws concerning business competition. The following shall be considered as unfair competition: illegal agreements, implied or express, or consolidation of any form and for any purpose whatsoever, which has an objective, or may have as an effect, the restraint, restriction, or falsification of the operation of free competition.

2. *Reserve Requirements*

The mandatory reserves system was established by Decree No. 67-27 of January 9, 1967, as amended by Decree No. 71-145 of 1971. This system requires banks to maintain interest-free deposits or, eventually, other forms of liquid assets with the Bank of France.

The National Council of Credits establishes the elements to be taken into consideration in the calculation of reserves for registered banks. The Bank of France establishes the rate of these reserves within the limits prescribed by the order of the Council. The rates of the reserves may differ according to the nature, amount, and variation of the elements of liabilities to which they apply. The banks which have not supplied the prescribed reserves must pay interest to the Bank of France on overdue payments at the rate established by the National Council of Credits. The Commission of Bank Control is in charge of controlling the implementation of the provisions of that Decree.

According to the opinion of Professor Jean-Louis Rives-Lange, banks are obliged to establish mandatory reserves not only on the basis of the deposits which they have collected, but also on the credit distributed to the economy:

The reserves against deposits constitute a minimum amount calculated, taking into consideration the registered current liabilities in the name of enterprises and private persons (deposits on current accounts and for a fixed period, cash vouchers, savings accounts (with the exception of accounts on housing savings)), non-banking enterprises . . . and finally of banks or banking agencies established in foreign countries. The deposits or cash vouchers for 3 or more years are not to be taken into account. . . .

The reserves against credits must have a minimum amount determined, taking into consideration the distributed financial assistance by banks and financial establishments in the form either of credits of any kind (with the exception of endorsements and sureties) granted to the beneficiaries who themselves are not subject to establishing reserves or credit leasing operations.

Liquidity Ratios. In order to guarantee a bank's solvency and to maintain its liquidity, thus protecting deposits, all banks are required to respect the following maximum and minimum percentage relationships established by the Commission of Bank Control:

1. between their liquid and convertible assets and their short term credits (liquidity coefficient);

2. between investments in immovables, commercial participation, and medium and long term assets, convertible or not, on the one hand, and the total of their capital, capital plus reserves, medium and long term commitments, and certain demand assets (immobilization ratio), on the other;

3. between the bank's own resources and the total of commitments to third parties, included or not in the balance (solvency ratio); and

4. between the total of the bank's own resources and the total of credit granted to one physical or legal entity, with the exclusion of credit guaranteed by the State or by public or semipublic institutions.

3. Priority Investments

In France a program requiring banks to maintain major public investment in treasury notes as a convertible counterpart to their deposits was begun in September 1948; but this program, which required a minimum purchase of treasury notes by all banks from the Bank of France was finally abolished by the 1967 reform laws.

4. Credit Ceilings

Different mechanisms have been conceived for limiting the total amount of credit granted, and several of these laws have been effectively institutionalized. For example, the monitoring of the rate of discount by the Bank of France is a very traditional control. The liquidity ratio, as mentioned above, limits the total credit in relation to the convertible resources.

In the past, the rediscount ceiling determined the rediscount operations that each bank could conduct with the Bank of France as a function of the bank's financial situation. The Bank of France, however, informed the banks in a letter dated December 20, 1971, that these rediscount ceilings were abolished. In so doing, it only made official what was already a recognizable fact. The desired control by the Bank of France, nevertheless, was maintained through the reform of the reserve system of that year. (See "Reserve Requirements" above.)

5. Loan Restrictions

(a) Deposit Banks

Since the lifting of the prohibition to receive deposits for a term longer than 2 years, the true limitations on loans by deposit banks have been those the law places on their financial participation in commercial and financial enterprises. These limitations are as follows:

(1) deposit banks may not hold a financial interest beyond 20% of the capital in enterprises other than banks, financial institutions, or companies necessary to their operation and in charge of the management of real estate or research or technical services attached to the banking profession;

(2) the total of the above financial participation, including underwriting guarantees for the creation of stock or commercial shares, may not exceed the total of their proper resources (capital plus reserves); and

(3) any use of demand deposits or deposits for a term of less than 2 years in real estate is prohibited.

(b) *Commercial Banks*

Commercial banks grant and extend credit, take control, and manage investments in commercial ventures. These banks are able to invest in such operations without limitation except for that restricting the investment of funds received in the form of demand deposits or deposits made for a period of less than 2 years. Their investments, however, must receive approval from the Commissioner of the Government. These banks, furthermore, may use their resources in credit operations. This latter qualification is simply a legal technicality provided by the law for distinguishing a commercial bank from a holding company.

(c) *Medium and Long Term Banks*

Medium and long term banks are those which engage in credit operations for terms of 2 or more years. These banks are subjected to the same limitations established for deposit banks, i.e., they can use only their own resources or funds deposited with them for more than 2 years. Because such long term deposits are rare, these banks call for public financing by issuing stock, commercial shares, or bonds and obligations.

6. *Interest Rates*

Interest rates are determined by agreements between the parties or by implicit reference to the general conditions applied by the banks. The Law of December 28, 1966, on Usury, Lending, and Certain Operations on Canvassing and Advertising established the interest ceilings which are applicable to banks. In general, banks respect established limits.

The provisions of the law concerning interest payable on capital specify that the rate of interest shall be determined by the National Council of Credits and published at the start of each quarter in the *Journal officiel*, the official law gazette of France.

7. *Exchange Controls*

For a discussion of this subject, see the accompanying materials taken from the International Monetary Fund's *Twenty-Sixth Annual Report on Exchange Restrictions 1975*.

8. *Central Credit Bank*

The Bank of France according to the Law of July 3, 1973, has the general task of controlling money and credits.

In matters affecting the direction of credit, the Bank of France acts in various ways. It establishes the rate of discount and the ceiling on rediscount, the minimal rates for mandatory reserves, etc. The National Council of Credits establishes general rules and the Bank of France, in many cases, the rules of implementation.

There is no indication of the existence of limitations concerning access or costs of credit to foreign banks by the Bank of France as compared with national banks.

9. *Bank Examination*

The power of surveillance over banks is conferred on the Commission of Bank Control by the Law of 1941. Accordingly, this body exercises sole power over the investigation, control, and discipline

of banks, as defined by the provisions of the Law. This power is primarily one of "technical surveillance" over banking operations.

To carry out its investigation, the Commission is given the power to examine the accounts and periodic balance sheets (*bilan*) submitted at its request as informative or justificatory measures. Furthermore, the Commission, which may be assisted by one or more persons from the Bank of France, may examine, on the spot, the records or operations of any bank. The Law provides that banks must supply the Commission with any information it may request, subject to penalties and fines for delay and misrepresentation.

10. *Cartel Restrictions*

See earlier discussion on "Codes of Fair Competition."

11. *Evenhandedness of Application of Regulation*

As a rule, the establishment and activity of foreign banks in France are not subject to other rules or controls than those reflected in the banking legislation and regulatory measures applicable to domestic banks.

In reality, however, as practice reveals and an authority in this field states, ". . . if foreign banks suffer a few disadvantages in respect to their establishment in France, most of these discriminations are not judicial, regulatory or administrative. . . . They stem rather from the nature of the problem." Furthermore, some of these disadvantages and discriminations result from the mere fact that "the same regulatory provisions do not weigh to the same extent on all banks, large and small, old and recently established."

As stated by Professor Gavalda, the freedom of establishment of foreign banks is admitted in France without argument. However, their freedom to carry out banking services is under active discussion.

APPENDIX

EXCERPT FROM THE INTERNATIONAL MONETARY FUND TWENTY-SIXTH ANNUAL REPORT ON EXCHANGE RESTRICTIONS, 1975, WASHINGTON, D.C.

FRANCE

(Position on December 31, 1974)

Exchange Rate System

The par value is 0.160000 gram of fine gold per French Franc, and France avails itself of wider margins. Since January 19, 1974, no predetermined margins have been maintained between the French franc and any other currencies.¹ On December 31, 1974 the rate for the U.S. dollar was F 4.445=US\$1.

Fixed conversion rates in terms of French francs apply to the currencies of the following countries and territories: the Operations Account countries,² the French Overseas Departments,³ the French Overseas Territories (except the Territory of the Afars and the Issas), and the Condominium of the New Hebrides. These conversion rates have been maintained at pre-August 15, 1971 levels and are applied irrespective of the nature of payments or receipts.

Authorized banks in France and in Monaco, which may also act on behalf of banks established abroad or in Operations Account countries, are permitted to deal spot or forward in the exchange market in France. Authorized banks may also deal spot and forward with their correspondents in foreign markets in all currencies. Nonbank residents may purchase forward exchange only in respect of imports and of certain merchanting transactions, but their forward sales of foreign currency are free, whether these represent export proceeds or other receipts. On the import side, forward cover is available for some commodities for 6 to 12 months, and for all others for 3 months. On the export side, an underlying contract is required and cover is available for the full maturity of the export contract or up to 1 month after the date on which the proceeds are collected.

France formally accepted the obligations of Article VIII, Sections 2, 3, and 4, of the Fund Agreement, as from February 15, 1961.

Exchange Control Territory

The exchange control regulations are applicable in all territories of the French Republic except the French Territory of the Afars and the Issas, i.e., in continental France, Corsica, the Overseas Departments (Guadeloupe, Martinique, Guiana, and Réunion), and five of the six Overseas Territories (Comoro Islands, St. Pierre and Miquelon, New Caledonia, Wallis and Futuna Islands, and French Polynesia). No exchange control is applied in relation to the Principality of Monaco or the Operations Account countries,² payments between France and these countries are free of restriction on the French side and take place at fixed exchange rates. All other countries are considered foreign countries for exchange control purposes;⁴ all payments between France and foreign countries are subject to exchange control. The Condominium of the New Hebrides is considered a foreign country for exchange control purposes. For imports and exports of gold, the Operations Account countries are also considered foreign countries.

Certain controls that are independent of the exchange control regulations are maintained over inward and outward direct investment and over borrowing abroad; these transaction controls are not applicable to the Operations Account countries or Monaco, and those over direct investment do not apply to member countries of the EEC. Privileged treatment in respect of trade transactions is accorded to (1) the Operations Account countries and (2) Algeria, Guinea, the Khmer Republic, Laos, the Malagasy Republic, Mauritania, Morocco, Tunisia, North Viet-Nam, the Republic of Viet-Nam, and the Condominium of the New Hebrides.⁵

Footnotes at end of article.

Administration of Control

The Directorate of the Treasury of the Ministry of Economy and Finance is the coordinating agency in the field of financial relations with foreign countries. It is in charge of exchange control and of all matters relating to inward and outward direct investment and to borrowing abroad, unless these matters relate to real estate companies, when the Bank of France screens applications and notifications. The Directorate of the Treasury also evaluates the balance of payments, together with the Bank of France, which collects the data for its compilation. Certain exchange control powers have been delegated to the Bank of France, including the authority to license imports and exports of gold. Other exchange control powers have been delegated to the Directorate-General of Customs and Indirect Taxes and in the Overseas Departments and Territories to the Caisse Centrale de Coopération Economique (CCCE).

The Directorate of Insurance of the Ministry of Economy and Finance has certain powers in respect of matters relating to insurance, reinsurance, annuities, etc. The material execution of all transfers has been delegated to authorized banks and stockbrokers and to the Postal Administration. The Director-General of Customs and Indirect Taxes establishes import and export procedures and controls, within the framework of commercial policy directives given by the Directorate of Foreign Economic Relations; the Directorate-General also issues import and export licenses, is responsible for any legal problems arising from the exchange regulations, and in particular handles any litigation relating thereto. Technical visas required for certain imports and exports are issued by the competent ministry or by the Directorate-General of Customs and Indirect Taxes. The Ministry of Industrial and Scientific Development has certain responsibilities in respect of licensing contracts and contracts relating to technical assistance.

Prescription of Currency

Settlements with Operations Account countries may be made in French francs or the currency issued by any institute of issue that maintains an Operations Account with the French Treasury.⁶ Settlements with all other countries may be made in any of the currencies of those countries or through nonresident Foreign Accounts in Francs. Settlements with Algeria, Morocco, and Tunisia, however, normally take place in French francs only. Importers and exporters are free to invoice in any currency.

Nonresident Accounts

A nonresident account in francs may be freely opened by an authorized bank for nonresidents, including French nationals (other than French officials) who have been residing abroad for at least two years. All overdrafts and advances on nonresident-held franc accounts are subject to general or specific permission.

Foreign Accounts in Francs may be freely credited with (1) the franc proceeds of the spot or forward sale of foreign currencies on the French exchange market by a nonresident; (2) the franc proceeds of the sale of foreign banknotes to an authorized bank by a nonresident bank or traveler; (3) the franc equivalent of an authorized bank's arbitrage in foreign currencies on a foreign market; (4) French banknotes (and those of the Operations Account countries) mailed direct from abroad to the main office of the Bank of France by an authorized bank's foreign correspondents; (5) transfers from other Foreign Accounts in Francs; (6) any authorized payment by a resident to a nonresident, including interest on balances in Foreign Accounts in Francs; (7) the sales proceeds, income, and amortization from French and foreign securities held in a foreign dossier in France, including securities accruing in France to a nonresident by donation or inheritance; (8) liquidation proceeds of nonresident-held direct investments⁷ or real estate; and (9) the proceeds of the sale, through the intermediary of a notary public, of real estate belonging to nonresidents. These accounts may be freely debited for (1) spot purchases of any foreign currency on the exchange market by a nonresident; (2) the purchase by a nonresident of foreign banknotes or withdrawals in French banknotes; (3) the equivalent in francs of arbitrage abroad in foreign currencies by an authorized bank; (4) French banknotes (and those of Operations Account countries) mailed by authorized banks direct to their foreign correspondents; (5) transfers to other Foreign Accounts in Francs; (6) approved direct investment in France by nonresidents;⁷ (7) purchases of real estate from residents, through the intermediary of a notary public; (8) purchases in France of French or foreign securities; (9) interest on and repayment of loans granted by residents; and (10) any payment by a nonresident to a resident.

Footnotes at end of article.

If French francs accruing to a nonresident are not transferable, or not immediately transferable, they may be credited to a Suspense Account in francs in the name of the beneficiary; balances up to F 50,000 that existed on August 9, 1973 have been released. The unremittable funds of emigrants of French nationality must be retained in resident accounts (*comptes intérieurs*) until they become nonresidents (i.e., until they have stayed in a foreign country for two years); emigrants of foreign nationality become nonresidents immediately and therefore may take out all of their assets upon departure.

Imports and Import Payments

Goods originating in and shipped from other parts of the French Franc Area or from certain other countries that are accorded privileged treatment in respect of trade transactions (see section on Exchange Control Territory, above) are generally admitted free of quantitative restriction and individual license. Imports of goods which originate in other countries and are not covered by French import liberalization require individual licenses. Some imports from EEC countries and some other imports from non-EEC countries are subject to minimum prices; these require an administrative visa and sometimes, exceptionally, an import license.

For import control purposes, countries outside the French Franc Area are divided into four groups according to the extent of import liberalization: (1) the former OEEC countries, their dependent territories and certain former dependent territories, Andorra, Canada, Finland, the United States, and Yugoslavia; (2) 49 specified countries;⁸ (3) the Eastern European countries (Albania, Bulgaria, Czechoslovakia, Hungary, Poland, Romania, and the U.S.S.R.) and the People's Republic of China; and (4) the German Democratic Republic. Commodities that may be imported free of quantitative restrictions from one group of countries include all the commodities that may be freely imported from the next group of countries plus some other specified commodities. Goods covered by the import liberalization arrangements applicable to one country may be imported freely from another country, provided that the country of origin and the country of shipment both benefit from the same degree of liberalization.

Imports of practically all industrial products from countries in group (1) are free of quantitative restrictions, but such restrictions are applied to a number of agricultural products; there is relatively little difference between the lists of goods which may be imported freely from different countries in this group, these differences relating mainly to Hong Kong and Macao. Imports of certain industrial products from countries in group (2) are restricted and restrictions are applied to these and to certain additional industrial products from group (3) countries. For some commodities, there are global quotas that are allocated semiannually and apply to all countries other than those having the benefit of bilaterally negotiated quotas or of privileged treatment. Imports from all countries of certain agricultural items and certain raw materials are free of quantitative restrictions.

Imports from non-EEC countries of most products covered by the Common Agricultural Policy of the EEC are subject to variable import levies that have replaced all previous barriers to imports; common EEC regulations are also applied to imports from non-EEC countries of most other agricultural and livestock products.

Liberalized imports are not subject to trade control formalities, only a customs document that constitutes the customs declaration being required; however, as an exchange control measure, the domiciliation of the import transaction at an authorized bank may be prescribed. For some liberalized imports, an administrative visa issued by the central Customs Administration or by the competent technical ministry is required on an import declaration. Imports of the products of the European Coal and Steel Community require licenses when originating in non-ECSC countries.

Other imports generally require individual import licenses. These are granted up to quotas determined on an individual commodity basis or for a group of commodities and applicable to specified countries or areas in accordance with trade agreements or an import plan drawn up for a definite period. Moreover, licenses may be issued under the compensation transaction procedure, which applies mainly to goods of Eastern European origin. Because of the high degree of import liberalization, imports under this scheme are of slight importance.

Payments for imports from foreign countries must be made by credit to a Foreign Account in Francs or with foreign currency purchased in the French exchange market; imports valued at less than F 10,000 may also be paid for through postal channels.

Footnotes at end of article.

Authorized banks may without special authorization allow advance payments to be made that are provided for in the commercial contract, up to 30 percent of the price for capital goods and up to 10 per cent for all other goods. Higher advance payments require prior approval by the Customs Administration. For all imports, importers may purchase spot foreign currency one month before the payment falls due (one month before shipment if a documentary credit is opened). There is no restriction on the use of suppliers' credit. The import payment itself can be made as soon as the importer can present evidence to his bank of domiciliation that the goods have been dispatched. Three months' forward cover for import payments can be obtained for any commodity; for the import of specified raw materials and specified foodstuffs (unroasted coffee, corn, rice, etc.) forward cover for six months or one year is available. The foreign currency may be purchased forward at the time of domiciliation, but the maturity of the forward exchange contract must not exceed the date on which the commercial payment is due.

Payments for Invisibles

Payments for current invisibles to foreign countries are controlled but not restricted as to amount. If justifying documents are presented and certain exchange control requirements are met, authorized banks are permitted to approve applications for payments without any limitation for many categories of current invisibles, and up to established limits for certain other categories of current invisibles. Applications for all other payments for invisibles and for amounts in excess of established limits are referred to the Bank of France to prevent unauthorized capital transfers; such applications are approved if a genuine current payment is involved. Any resident may freely and at any time make remittances abroad up to the equivalent of F 1,500 a person without indicating their purpose, provided that the transfers do not constitute installments of payments exceeding F 1,500, are not for purposes subject to special allocation, and do not serve to accumulate funds abroad.

Payments which may be authorized without limitation by authorized banks include those related to approved trade transactions; income accruing to non-residents in the form of profits, dividends, and royalties; banking commissions, patent fees, and specified categories of taxes; specified insurance payments; fees to medical doctors, lawyers, etc.; alimony in accordance with court decisions; and net salaries or wages of foreigners employed in France, provided that the transfer takes place within three months from the date of payment.

Irrespective of the exchange control regulations, certain transactions between persons or firms in France and abroad are subject to restriction; these include certain transactions relating to insurance, reinsurance, and road and river transport.

The basic exchange allocation for tourist travel to foreign countries by residents (defined for this purpose as including residents of Operations Account countries) is the equivalent of F 5,000 a person a trip, which may be taken up for any number of trips a year. The basic allocation for business travel is the same plus the equivalent of F 500 a person a day. Applications for exchange in excess of the basic allowance for any type of travel are approved by the Bank of France, provided that no capital outflow is involved. Any unutilized foreign currency in excess of the equivalent of F 1,000 must be surrendered upon return to France. Applications for travel exchange cannot be submitted earlier than one month before departure. The use abroad of credit cards issued in France is unrestricted for the settlement of expenditures; in addition, the holder may use them to obtain funds from banks abroad up to F 1,000 a week. All fares for trips starting in France may be paid in francs in France, as may hotel costs and other transportation expenses.

Resident travelers going to foreign countries may take out F 5,000 in French banknotes. These banknotes may be spent abroad. Nonresident travelers may take out F 5,000 in French banknotes and may reconvert in the French exchange market into foreign currency any French banknotes up to F 5,000 obtained by the conversion in that market of foreign means of payment that they declared upon entry or obtained by debit to a Foreign Account in Francs; any remaining French banknotes must be deposited with the customs against issuance of a receipt.

Resident travelers may freely take out the equivalent of F 1,000 in foreign notes and coins when acquired in the French exchange market against a tourist travel allocation, or, if they are leaving on a business trip, the equivalent of F 5,000 in foreign banknotes or in checks. Nonresident travelers may not, in

principle, take out more than the equivalent of F 5,000 in foreign banknotes unless they were declared upon entry and the annotated declaration form shows that the amount to be taken out does not exceed that imported minus any amounts exchanged for francs plus any reconversion of francs into foreign currencies. However, nonresident travelers may also freely take out any other means of payment established in their name abroad, as well as, subject to the submission of an authorized bank's declaration, any amount in foreign banknotes or foreign currency travelers checks acquired in France from an authorized bank by conversion of foreign exchange in the French exchange market, by debit to a Foreign Account in Francs, or by debit to a foreign currency account.

Exports and Export Proceeds

Certain goods on a prohibited export list may only be exported if a special license is issued. Some other exports also require individual licenses; but if the total value does not exceed F 500, these exports may be permitted without any formality, subject to certain exceptions. Regardless of their value, exports through compensation transactions with certain countries⁹ require licenses if the commodities are those for which export licenses are required.

Exports to foreign countries are subject to exchange control. Payment must be received through the official exchange market. The repatriation¹⁰ and, where appropriate, the surrender by sale in the exchange market of proceeds from exports to foreign countries is required, normally within one month of the date on which the payment falls due. Authorized banks may freely extend foreign currency advances to exporters; such advances and their repayment may be settled in the French exchange market, as may the proceeds from the discounting of foreign currency drafts presented by exporters. The due date of the commercial contact (and, therefore, the due date of the export receipts) cannot, except with special authorization or when a guarantee by the Compagnie Française d'Assurance pour le Commerce Extérieur (COFACE) has been obtained, be more than 180 days after arrival of the goods at their destination. Export proceeds must not be received in French or foreign banknotes or banknotes issued by an institute of issue maintaining an Operations Account with the French Treasury, or by debit to a postal checking account in France. Certain goods purchased in France by persons not normally residing in France are considered as exports even when paid for in French francs, and are exempt from taxes.

Proceeds from Invisibles

Proceeds from transactions in invisibles with Monaco and the Operations Account countries may be retained. All amounts due from residents of other countries in respect of services and all income earned in those countries from foreign assets must be repatriated and, where appropriate, surrendered, within one month from the due date. With minor exceptions for certain types of transactions, services performed for nonresidents do not require licenses.

Resident and nonresident travelers may bring in any amount of banknotes and coins (except gold coins) in French francs, CFA francs, CFP francs, or any foreign currency; however, the exchange of banknotes issued by Algeria, Morocco, and Tunisia is prohibited at the request of those countries. Resident travelers must within a month of entry sell in the French exchange market any foreign banknotes or travelers checks in excess of F 1,000 that they bring in.

Capital

Capital movements between France and Monaco and the Operations Account countries are free of exchange control; capital transfers between France and all other countries are subject to exchange control approval. With the exception of purchases of French and foreign securities abroad, outward transfers or resident-owned capital generally are restricted; capital receipts from foreign countries generally are permitted freely, provided that the foreign exchange proceeds are surrendered by sale in the exchange market (but see below for special controls over borrowing abroad and over inward direct investment). Capital assets abroad of residents are not subject to repatriation. Residents are freely permitted to purchase real estate abroad for personal use as their principal residence, up to F 300,000 a family unit. The transfer abroad of nonresident-owned funds in France, including the sales proceeds of capital assets, is not restricted.

French and foreign securities held in France by nonresidents can be exported, provided that they have been deposited with an authorized bank in a foreign dossier (*dossier étranger de valeurs mobilières*); French and foreign securities held under a

foreign dossier can also be sold in France and the sales proceeds can be transferred abroad. Foreign securities held in France by a nonresident must be deposited with an authorized bank; French securities held in France by nonresidents need not be deposited but cannot be dealt with or exported unless they have been deposited. Foreign securities held in France by residents must be deposited with a qualified bank or broker. Residents may hold French and foreign securities abroad under the control of a French authorized bank or broker. The exportation for the account of residents of French securities held in France is prohibited, except when they are to be sold abroad.

Subject to compliance with the special regulations concerning inward and outward direct investment that are summarized below, residents may freely purchase French and foreign securities on stock exchanges abroad, through authorized banks.¹¹ Such French and foreign securities may be held or sold abroad but they may also be imported and then either be held or sold on a French stock exchange. The proceeds of the sale abroad of French or foreign securities must be sold on the exchange market within two months of receipt, unless used within that period for reinvestment in securities abroad. Correspondingly, nonresidents holding French or foreign securities abroad (whether acquired before November 24, 1968 or later) may freely import them into France and hold them in a foreign dossier, or sell them on a stock exchange in France and repatriate the proceeds through the French exchange market.

Special controls (additional to any exchange control requirements that may be applicable) are maintained over borrowing abroad and over inward and outward direct investment. In principle, these controls relate to the transactions themselves, not to payments or receipts. At present, however, their application is in many instances affected by exchange control requirements. With the exception of the controls over capital issues in France, the transaction controls do not apply to countries whose bank of issue is linked with the French Treasury by an Operations Account. Furthermore, the transaction controls over direct investment are not applicable to member countries of the EEC, direct investment transactions with which are subject to exchange control declaration and exchange control approval only.

Foreign direct investments in France and French direct investments abroad require prior declaration to the Minister of Economy and Finance; in relations with member countries of the EEC, the declaration is required under the exchange control regulations rather than under the special transaction controls, and prior exchange control authorization is required for all direct investment operations liable to involve a capital movement. Direct investments are defined as investments implying control of a company or enterprise. Mere participation is not considered as direct investment, provided that it does not exceed 20 per cent of the capital of a company whose shares are quoted on the stock exchange; any participation in any other type of firm is considered a direct investment. The Directorate of the Treasury, in evaluating the degree of control, takes into account any special relationships resulting from stock options, patents and licenses, commercial contracts, etc. Except in respect of EEC countries, the Minister has a period of two months from receipt of the declaration during which he may request the postponement of the projects submitted to him. Unless the amount involved is less than F 1 million, documentary evidence must be submitted to the Directorate of the Treasury before the liquidation proceeds of foreign direct investments in France may be transferred abroad, and the liquidation itself must be reported to the Minister within 20 days after it takes place. As an exception to the declaration and approval requirements summarized earlier in this paragraph, the making or the liquidation of direct investments abroad by residents is exempt from prior declaration or prior authorization when the amount involved does not exceed F 1 million a year for each beneficiary firm abroad, and provided that the transactions do not involve holding companies, investment companies, investment trusts, unit trusts, mutual funds, or companies whose purpose it is to facilitate the financing or treasury functions of enterprises belonging to one or more groups. Also, certain inward direct investment up to F 1 million a transaction is exempt from prior declaration or authorization.

Foreign issues on the French capital market are subject to prior authorization by the Minister of Economy and Finance. The requirement is applicable also to the Operations Account countries. Exempt from authorization, however, are operations in connection with (1) loans backed by a guarantee from the French Government, and (2) shares similar to securities that already are officially quoted on a stock exchange in France.

Borrowing abroad by physical or juridical persons, whether public or private

persons, whose normal residence or registered office is in France, or by branches or subsidiaries in France of juridical persons whose registered office is abroad, requires prior authorization by the Minister of Economy and Finance.

The following types of borrowing are, in principle, exempt from this authorization: (1) loans constituting a direct investment, which are subject to prior declaration, as indicated above, and whose postponement may be requested by the Minister up to two months after receipt of the declaration; (2) borrowing by industrial firms for the execution of works abroad; (3) borrowing by any type of firm to finance imports or exports; (4) loans related to certain international merchanting transactions; (5) loans contracted by banks expressly permitted to borrow abroad (these include all authorized banks); and (6) foreign currency borrowing abroad by nonbank firms, when the total amount outstanding of these loans does not exceed F 10 million for any one borrower, provided that the interest rate is a "normal" market rate, that the borrowing is not for the purpose of direct investment, that the foreign exchange proceeds are surrendered, and that each drawing against the loan is separated by at least one year from the corresponding repayment. (However, between July 24, 1970 and the third quarter of 1973 borrowing in francs was restricted, the exemptions under (2), (3), (4), and (6) were limited to borrowing in foreign currency, and borrowing in francs by nonbank residents from nonresidents was in effect prohibited. Furthermore, during 1972 and most of 1973 banks and industrial companies were not normally allowed to borrow abroad to finance direct investment in France or abroad. During 1974, however, borrowing from nonresidents, whether in francs or foreign currency, was not normally restricted.)¹² All borrowings in Euro-francs are subject to prior authorization.

The application of the controls over direct investment and borrowing is delegated to the Bank of France insofar as they relate to French firms that are mainly engaged in real estate business.

Lending abroad is subject only to exchange control authorization by the Bank of France, which is given or withheld within the framework of directives issued by the Treasury. Since the imposition of exchange control in 1968, authorized banks have been virtually free to lend foreign currency to nonresidents, subject to certain reservations in respect of the granting of guarantees and varying limitations on their external position, and to resident importers and exporters. Lending to nonresidents in francs, however, is prohibited, with minor exceptions.

Authorized banks' foreign currency assets and their overall liabilities in francs and foreign currency to nonresidents are free from limitation. Authorized banks may freely sell foreign exchange on the official exchange market for the account of nonresidents, spot or forward. They are allowed to pay interest on nonresident-owned franc or foreign currency deposits. Nonresident-held franc deposits are not subject to reserve requirements, whether on balances held or on increases therein.

Nonresidents may freely purchase French short-term securities, including treasury bills, *bons de caisse*, and private drafts.

Gold

Residents are free to hold, acquire, and dispose of gold in any form in France. They may continue to hold abroad any gold they held there prior to November 25, 1968. There is a free gold market for bars and coins in Paris, to which residents have free and anonymous access and in which normally no official intervention takes place. Imports and exports of gold into or from the territory of continental France require prior authorization by the Bank of France, which is not normally granted for monetary gold but usually is given for industrial gold. Exempt from this requirement are (1) imports and exports of gold addressed to or shipped by the Bank of France; (2) imports and exports of manufactured articles containing only a minor quantity of gold, such as gold-filled and gold-plated articles; (3) imports and exports by private persons of gold objects (other than medals and bars, but including both personal and other jewelry) or numismatic gold coins, provided that their combined weight does not exceed 500 grams; and (4) collectors' items of gold and gold antiques that are exported under "02 licenses" granted with the approval of the Directorate of Museums. Both licensed and exempt imports of gold are subject to customs declaration. The import and export of certain gold objects that are considered merchandise, such as gold watches, are subject to both the regular import and export licensing arrangements and to licensing by the Bank of France.

A 20-franc gold coin, the *napoléon*, is legal tender but does not circulate. It is actively traded on the Paris stock exchange. In domestic trading, purchases of

monetary gold (bars and coins) are not subject to value-added tax. Imports of monetary gold are exempt from customs duty and value-added tax.

Changes during 1974

January 7. It was announced that agencies and enterprises in the energy sector were with immediate effect being allowed to borrow at medium term and long term on the foreign and international capital markets.

January 14. Quantitative restrictions on certain industrial imports from Albania, Bulgaria, the German Democratic Republic, the People's Republic of China, North Korea, Hungary, Outer Mongolia, Poland, Romania, and the U.S.S.R. were removed.

January 15. With effect from January 21, the remaining reserve requirements against nonresident-owned franc deposits were rescinded. (Those on increases in such deposits had been eliminated in October 1973.)

January 17. It was announced that a tax of F 6 a ton would be levied on imports of crude petroleum.

January 19. It was announced that during the next six months, and on a temporary basis, the interventions of the Exchange Stabilization Fund in the official exchange market would no longer aim at limiting the exchange rates between the franc and certain other currencies within predetermined margins; during this period the monetary authorities would operate the exchange market in an orderly fashion. Restrictions were being introduced on capital outflows but not on current payments. No changes in the classification of transactions between official exchange market and financial franc market were announced. (At the end of the six-month period, France did not resume its participation in the European common margins arrangement.)

January 20. All lending of francs to nonresidents, whether by banks or nonbanks, was made subject to authorization, and such authorization was not normally granted. Previously, such lending was freely permitted up to periods of two years.

January 20. The general permission to authorized banks to credit nonresident franc accounts with the amount of loans in francs granted by residents was revoked. They could still debit such accounts for the repayment of franc loans granted to nonresidents prior to January 20.

January 20. Forward cover facilities for outgoing payments were again limited to imports and such cover was normally restricted to 3 months, although periods of 6 or 12 months were permitted for specified commodities.

January 21. Transactions with Algeria ceased to take place at a fixed exchange rate.

January 21. Export credit again was limited, unless special authorization or a CoFACE guarantee was obtained, to 6 months after the arrival of the goods at their destination.

January 21. The exemption from approval requirements for "financial" foreign currency borrowing abroad by nonbank residents was increased from a total indebtedness for each borrower of F 2 million to F 10 million, provided that each drawing against a loan and the corresponding repayment were at least one year apart. (Foreign currency borrowings abroad or from authorized banks in France to finance imports or exports had never been subject to a ceiling, and they remained unaffected.) The circular of January 19, 1974 revoked that of March 21, 1969 (as amended by circulars of July 24, 1970 and September 8, 1970).

January 21. Bank of France Circular No. 200 A.F. specified the types of lending of francs to nonresidents that could still be undertaken by authorized banks. These were (1) franc overdrafts corresponding to normal mail credits (up to ten business days); (2) documentary credits in favor of French exporters, when opened on instructions from banks' foreign correspondents and provided the export transaction was settled within 6 months of arrival of the goods; (3) credits within the framework of financial protocols signed by the French Government with foreign governments or of interbank agreements formally approved by the Treasury; and (4) financial credits in francs granted by French banks to foreign buyers of French capital goods and guaranteed by CoFACE. All other franc lending (or renewal of existing franc lending) to banking correspondents or other nonresidents was prohibited, including lending of francs to foreign correspondents or customers in the form of swaps of francs against foreign currencies. Banks were instructed to abstain in their relations with nonresidents from any transaction leading to a forward sale of francs by the latter, even an outright sale.

January 21. Bank of France Circular No. 201 A.F. permitted authorized banks to use their foreign currency holdings for "financial" loans to residents covered

by the January 20 circular on borrowing abroad, i.e., where such borrowing was permitted without prior authorization.

January 31. The Minister of Economy and Finance announced that the French Government would borrow foreign currency equivalent to US \$1.5 billion. Subscriptions to the loan were closed on February 4.

February 25. Imports of beef from "third" countries were restricted.

March 20. Certain measures to stimulate exports were announced. COFACE would henceforth cover short-term commercial risks on exports to certain countries for which it previously did not grant cover; these risks would be guaranteed by the State, according to the normal procedure. For industrial investments abroad, investment guarantees would be granted on reinvested profits, up to 50 per cent of the initial amount invested. The maximum duration of investment guarantees would be increased from 10 to 15 years, and the ordinary coverage from 75 per cent to 90 per cent.

March 21. Medium-term and long-term credits for the financing of exports of capital goods were no longer taken into account in calculating minimum reserve requirements on credit extended by banks; this confirmed a rule already followed in practice previously.

March 21. The dual exchange market was unified by the abolition of the financial franc market. The Treasury Circular of May 5, 1972 concerning the execution of transfers between France and foreign countries through the official exchange market and the financial franc market was revoked. In the remaining circulars issued since August 20, 1971 under Decree No. 67-78 and Decree No. 68-1021, the terms "financial franc market" and "Financial Account in Francs" were replaced by "official exchange market" and "Foreign Account in Francs," respectively. The fixed exchange rates for the CFA francs, the CFP franc, and the New Hebrides franc remained unchanged. (On March 22, a circular was issued which specified the permitted debits and credits to Foreign Accounts in Francs and provided new rules regarding *dossiers étrangers de valeurs mobilières*.)

May 30. France signed the OECD Declaration on Imports, Exports, and Other Current Account Transactions.

June 12. The supervision over domestic bank credit to foreign-owned or foreign-controlled firms in France was tightened.

July 2. Law No. 74-626 authorized the approval of the cooperation agreement of December 4, 1973 between France and the member countries of the West African Monetary Union.

July 15. Imports of cattle and beef from "third" countries were suspended to a decision of the EEC Ministers of Agriculture.

July 26. Decree No. 74-721 modified Decree No. 68-1021 (as amended). The Minister of Economy and Finance was authorized to exempt from prior declaration or prior authorization certain financial transactions relating to inward and outward direct investment. Decree No. 72-365 of May 5, 1972 was revoked. The new decree was implemented by an Order and two Circulars, all of July 26. (See August 17, below.)

August 7. Short-term export credits were exempted from the overall ceiling of 13 percent on the growth of bank credit; during August and September they would be allowed to increase by 19 percent (on a year-to-year basis).

August 9. Special investment credit facilities were introduced to enable small and medium-sized firms to expand their export business.

August 9. The Director-General of Customs and Indirect Taxes issued a circular modifying slightly the regulations governing imports and exports of gold.

August 17. The regulations governing French direct investments abroad as well as foreign direct investments in France (or their liquidation) were relaxed slightly, and their supervision was partially delegated to authorized banks. In future, French investments abroad of less than F 1 million a year (except those by holding companies, companies engaged in portfolio investments, and similar financial companies) would not require prior declaration or prior approval. Furthermore, prior declaration or prior approval would not be required for foreign investments in France of less than F 2 million a year as long as the operation aimed at developing French companies already controlled by foreign interests, or for certain foreign borrowing up to F 2 million a year. However, such investments would have to be in foreign currency and must not entail an increase of the nonresident stake in the French company. Also exempt from prior declaration or authorization, up to F 1 million a transaction, were the purchase or creation of small companies in France by nonresidents. At the same time, the regulations concerning guarantees by residents in favor of nonresidents or by nonresidents in favor of residents were relaxed; in certain cases these also became exempt from prior declaration

and prior authorization. (The new legislation was dated July 26 but was published in the Official Gazette on August 17.)

September 25. The Council of Ministers approved new energy saving measures. Imports of crude petroleum and petroleum products (net) would in 1975 be limited in principle to a maximum of F 51 billion, regardless of price developments (Law No. 74-908 of October 29, Decree No. 74-940 of November 12, and Order of December 31).

September 26. The permissible year-to-year growth rate for short-term export credits was increased to 22 percent for the last quarter of 1974.

September 29. Certain exchange control formalities and obligations relating to payments in respect of imports and exports were abolished, including the requirement of domiciling import and export transactions (previously applicable to all imports from foreign countries when valued at F 50,000 or more) and the requirement of an *engagement de change* for exports to foreign countries.

October 19. The effective interest rate on export credits was raised to 7.5 per cent, with immediate effect for new contracts, and with effect from January 15, 1975 for existing contracts.

November 15. A circular was issued which introduced further minor changes in the regulations governing borrowing abroad and inward and outward direct investment. It modified the relevant circulars of January 19 and July 26.

November 21. It was announced that with effect from January 1, 1975 the metropolitan French franc would replace the CFA franc as legal tender in the overseas Departments (Guadeloupe, Martinique, Guiana, and Réunion). (The measure was put into effect on March 31, 1975 by Decree No. 75-182 of March 19, 1975, which implemented Article 17 of Law No. 74-1114 of December 27, 1974.)

December 6. The permissible interest rate spread on Euro-currency credits taken up by public sector agencies and eligible for a state guarantee was reduced.

December 31. Decree No. 74-1177 transferred with effect from January 1, 1975 the issue of currency in the Comoro Islands from the Bank of Madagascar and the Comores to the Institute of Issue of the Comoro Islands. (The charter of the latter was issued in Decree No. 74-1176 of December 31.)

NOTES

¹ The currencies that are officially quoted are Austrian schillings, Belgium francs, Canadian dollars, Danish kroner, deutsche mark, Djibouti francs, Italian lire, Mexican pesos, Netherlands guilders, Norwegian kroner, Portuguese escudos, pounds sterling, Spanish pesetas, Swedish kronor, Swiss francs, U.S. dollars, and zaïres.

² Countries whose institute of issue maintains an Operations Account with the French Treasury: Cameroon, Central African Republic, Chad, People's Republic of the Congo, Dahomey, Gabon, Ivory Coast, Mali, Niger, Senegal, Togo, and Upper Volta.

³ With effect from March 31, 1975, the French franc replaced the CFA franc issued by the Institute of Issue of the French Overseas Departments as the currency of the Overseas Departments.

⁴ Present French legislation no longer makes reference to the concept French Franc Area. From an exchange control point of view, this Area ceased to exist with effect from January 31, 1967. In the context of countries' overall relations with France, however, the concept survives. In this sense the French Franc Area consists of France and the following countries: (1) the countries of the West African Monetary Union (Dahomey, Ivory Coast, Niger, Senegal, Togo, and Upper Volta); (2) the countries of the Central African Customs and Economic Union (Cameroon, Central African Republic, People's Republic of the Congo, and Gabon) and Chad; (3) three North African countries (Algeria, Morocco, and Tunisia); (4) two former Operations Account countries (Madagascar and Mauritania); and (5) one other country (Mali).

This broad definition is followed, *inter alia*, in compiling the balance of payments. In the context of France's monetary relations, the concept of French Franc Area is narrower, excluding the countries of groups (3) and (4).

⁵ These countries and territories are listed in Article 86 of an Order of January 30, 1967 of the Directorate-General of Customs and Indirect Taxes (as amended on February 6 and May 31, 1967).

⁶ In addition to the institutes of issue of the Operations Account countries, these are the Institute of Issue of the French Overseas Departments (for Guadeloupe, Martinique, Guiana, and Réunion); the Overseas Institute of Issue (for New Caledonia, French Polynesia, Wallis and Futuna Islands, and St. Pierre and Miquelon); and the Bank of Madagascar and the Comores (for the Comoro Islands)—but see note 3. With effect from January 1, 1975 the functions of the last-named institute were transferred to the Institute of Issue of the Comoro Islands.

⁷ Subject to compliance with the provisions of Decree No. 68-1021 of November 24, 1968, as amended by Decree No. 71-144 of February 23, 1971, and Decree No. 72-365 of May 5, 1973.

⁸ Afghanistan, Argentina, Australia, Bhutan, Bolivia, Brazil, Burma, Chile, Republic of China, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, Egypt, El Salvador, Ethiopia, Guatemala, Haiti, Honduras, India, Indonesia, Iran, Iraq, Israel, Japan, Jordan, Republic of Korea, Lebanon, Liberia, Libyan Arab Republic, Mexico, Nepal, New Zealand, Nicaragua, Pakistan, Panama, Paraguay, Peru, Philippines, Saudi Arabia, South Africa, Sri Lanka, Sudan, Syrian Arab Republic, Thailand, Uruguay, Venezuela, and Yemen.

⁹ Albania, Bulgaria, People's Republic of China, Czechoslovakia, Egypt, German Democratic Republic, Hungary, North Korea, Poland, Romania, Turkey, U.S.S.R., Yugoslavia, and certain Latin American countries.

¹⁰ Repatriation may take place either by collection of foreign currency or by debit to a Foreign Account in France.

¹¹ The existing general permissions do not cover the sale in France by nonresidents, or the purchase abroad by residents, of securities that are not quoted on a recognized stock exchange.

¹² On April 3, 1975, the Minister of Economy and Finance stated that public sector companies had been asked to reduce their borrowings abroad and that the Government would encourage Euro-franc bond issues by foreign companies.

GREECE*

General Information

The banking system of Greece comprises the Central Bank, the commercial banks, special credit institutions, and development banks. The highest monetary authority is the Currency Committee with responsibility over all monetary and credit matters.

A significant development in the Greek economy during the recent years is the increased number of foreign banks which operate there. Over ten foreign banks with branch offices in several small towns are in operation now, and it is estimated that they handle about 10 percent of the commercial activities.

For the establishment of a foreign bank, a license of the Currency Committee is required, which is granted once the provisions of the pertinent laws are satisfied. Such licenses are granted as a matter of course. However, it must be noted that a new regulation recently passed, requires foreign applicants to import 10 million U.S. dollars for every new branch that is opened, instead of 5 million as previously required. This amount must remain in Greece for the entire duration of the bank's operations, whereas previously it was required to remain in Greece for 5 years only. The imported capital may be deposited in foreign exchange with the Bank of Greece or used for long-term credit operations.

The laws which apply to domestic banks are equally applicable to foreign banks as well. Therefore, the answer given in the following paragraphs refers to both domestic and foreign banks.

*1. Deposit Restrictions**(a) Limits on Deposits of Resident Nationals*

There is no restriction on the deposits of resident nationals regarding domestic or foreign currency, although in practice only domestic currency is available to Greek nationals in Greece.

(b) Limits on Inflows of Funds from Abroad

Once the required procedure concerning import of foreign capital is complied with, no limit exists on such inflows.

(c) Foreign Bank Access to Savings Deposits

No distinction is made as to the access of foreign banks.

(d) Codes of Fair Competition

All enterprises are subject to the law against unfair competition. The same holds true for all banks.

*2. Reserve Requirements**(a) Direct Reserve Requirements*

Direct reserve requirements refer to the interest-free deposits which commercial banks are required to keep in the Bank of Greece. Thus, all banks must deposit 20 percent of their private sight and restricted deposits and 5 percent of private savings deposits, except for deposits with 3 month's notice. These reserve requirements are non-interest-bearing.

Moreover, banks are obliged to deposit another 20 percent of their private sight and restricted deposits and 3 percent of their private time and savings deposits. The latter category of deposits is with interest.

*Prepared by Harris Stavrakakis, Senior Legal Specialist, European Law Division, Law Library, Library of Congress, November 1975.

(b) *Special Deposits*

Banks are required to set aside 6 percent of the increase of their deposits in a special fund for credit to certain sectors of the economy, or to deposit the equivalent with the Bank of Greece in a special account bearing interest at 3 percent per annum.

(c) *Secondary Reserves*

The secondary reserves requirement applies to all banks and refers to the compulsory investment in treasury bills, government bonds, and bonds of public enterprises. The current rate, which is 39 percent, applies to private sights, savings, and restricted deposits. The rate which applies to private time and to 3 month's notice savings deposits is 4 percent.

(d) *Liquidity Ratios*

All banks are required to apply 15 percent of their total deposits to medium and long-term loans. A bank which fails to meet this requirement must deposit a sum equal to the difference in a special account in the Bank of Greece.

3. *Priority Investments*

There are no priorities in investment. However, indirectly a bank may be made to commit certain sums for specific purposes.

4. *Credit Ceilings*

The credit ceiling is an instrumentality whereby the fiscal authorities influence the money market. The amount of credit ceiling varies depending on the economic circumstances.

5. *Loan Restrictions*

Certain restrictions exist as to the amount to be loaned, and banks are also committed to set aside certain amounts for certain projects.

6. *Interest Rate Limits*

Interest rates on deposits and on credit to the various sectors of the economy are determined by the Currency Committee. The role of the interest rate is to influence the allocation of credit.

7. *Exchange Controls*

Exchange controls are in effect for all banks.

8. *Central Bank Credit*

All banks have access to the central bank credit. The present cost is 8 percent.

9. *Bank Examination*

All banks are subject to the control of fiscal authorities.

10. *Cartel Restrictions*

No such restrictions are in effect; the merger of banks is allowed once the provisions of the law on the subject are met.

11. *Evenhandedness of Application of Regulation*

As indicated above, domestic and foreign banks are subject to the same laws and authorities. This implies that there is uniform treatment.

HONG KONG

BANKING

ANY DEPOSIT RESTRICTIONS

| Limits on deposits of resident nationals—domestic currency versus foreign currencies, all banks, domestic banks versus foreign banks | Limits on inflows of funds from abroad—all banks, foreign as opposed to domestic | Foreign bank access to savings deposits | Codes of fair competition—impact on foreign banks of agreements restricting solicitation of deposits of other banks |
|--|--|---|---|
| (a) | (b) | (c) | (d) |

No limits..... No limits..... Unrestricted..... No restrictions.

RESERVE REQUIREMENTS—ALL BANKS, FOREIGN VERSUS DOMESTIC

| Direct reserve requirements—all banks, foreign versus domestic—requirement that deposits be kept with central bank or government agencies. | "Special deposits" | Secondary reserves | Liquidity ratios |
|--|--------------------|--------------------|------------------|
| (a) | (b) | (c) | (d) |

No provision..... No..... No..... Statutory liquidity ratio of 25 percent of total deposit liabilities must be maintained.

| Priority investments—government securities, housing, development banks, long-term loans, etc., all banks, foreign versus domestic. | Credit ceilings—either re domestic inflation or balance of payments. | Loan restrictions re classes of borrowers or uses of funds also structural restrictions (such as prohibitions against underwriting)—all banks, foreign versus domestic. | Interest rate limits—all banks, foreign versus domestic. | Exchange controls all banks, foreign versus domestic. |
|--|--|---|--|---|
|--|--|---|--|---|

| | | | | |
|-----------|-----------|--|--|--|
| None..... | None..... | Maximum limit on advances to any 1 person and on limited direct investment by banks to a proportion of their capital and reserves—applicable to all banks. | After a period of competition through interest rates, the Exchange Banks Association has set up an interest rate agreement to which all banks conform, with differential maximum rates laid down for different classes of banks. | Hong Kong has rescinded all exchange controls. |
|-----------|-----------|--|--|--|

HONG KONG—Continued

BANKING—Continued

RESERVE REQUIREMENTS—ALL BANKS, FOREIGN VERSUS DOMESTIC—Continued

| Central bank credit—access and cost—all banks, foreign versus domestic. If there is nominal access, is there nevertheless discrimination? | Bank examination—all banks, foreign versus domestic. What is the interval and nature of examination? | Cartel restrictions—against particular operations? Need for cooperation? Big versus little banks; foreign versus domestic | Evenhandedness of application of regulation overall |
|---|--|---|---|
| Not applicable—Hong Kong has no central bank. | Bank accounts are audited yearly and banking information is published. Monthly reports required from foreign banks as well as from domestic banks. Inspection and investigation of banks under the Banking Act may be made if shareholders of the bank holding not less than $\frac{1}{3}$ of the total number of issued shares, or depositors holding not less than $\frac{1}{10}$ of the gross deposit liabilities in Hong Kong of the bank, or a sum equal to the aggregate of the paid up capital of the bank and its published reserve, whichever is greater, apply to the Commissioner of Banking to make an investigation and if they submit evidence which he considers necessary to justify the request, and furnish security for payment of the costs of the investigation, as the commissioner may require. Investigation may also take place if the bank suspends payment or informs the commissioner of its intention to suspend payment. | None | Evenly applied to all banks |

IRAN

BANKING

ANY DEPOSIT RESTRICTIONS

| Limits on deposits of resident nationals—domestic currency versus foreign currencies, all banks, domestic banks versus foreign banks | Limits on inflows of funds from abroad—all banks, foreign as opposed to domestic | Foreign bank access to savings deposits | Codes of fair competition—impact on foreign banks of agreements restricting solicitation of deposits of other banks |
|--|--|---|---|
| (a) | (b) | (c) | (d) |
| Iranian nationals may freely maintain time deposits in foreign currencies in Iran; they may also retain, on foreign accounts with domestic banks, all foreign exchange they receive. | No restrictions specified by law. | No restrictions specified by law. | No restrictions specified by law. |

IRAN—Continued

BANKING—Continued

RESERVE REQUIREMENTS—ALL BANKS, FOREIGN VERSUS DOMESTIC

| Direct reserve requirements— all banks, foreign versus domestic—require- ment that deposits be kept with central bank or gov- ernment agencies | "Special deposits" | Secondary reserves | Liquidity ratios |
|--|--|---|---|
| (a) | (b) | (c) | (d) |
| Fixed by Central Bank of Iran according to type of busi- ness bank. | None specified..... | None specified..... | Fixed by Central Bank of Iran. |
| Priority investments— government securi- ties, housing, devel- opment banks, long- term loans, etc. all banks, foreign versus domestic. | Credit ceilings—either re domestic inflation or balance of pay- ments. | Loan restrictions re classes of borrowers or uses of funds also structural restric- tions (such as pro- hibitions against underwriting)—all banks, foreign versus domestic. | Interest rate limits— all banks, foreign versus domestic. |
| None specified by Iranian law. | None specified..... | May not grant credit to members of its own organization or members of Central Bank of Iran (ex- cept according to special regulations.) Prohibitions against: (1) buying and selling goods for trading purposes; (2) trans- actions in immov- able property, ex- cept by banks formed for that pur- pose; (3) issuing bearer notes. | Exchange controls all banks, foreign versus domestic. |
| Central bank credit—access and cost—all banks, for- eign versus domestic. If there is nominal access, is there nevertheless discrim- ination? | Bank examination—all banks, foreign versus domestic. What is the interval and nature of examination? | Cartel restrictions—against particular operations? Need for cooperation? Big versus little banks; foreign versus domestic. | Exchange control is vested in the Cen- tral Bank of Iran. All transactions must take place through authorized banks only. |
| Central Bank may grant short-term credit to any bank, foreign or domestic, and discount commercial notes and drafts of short- term maturity. There is no discrimination. | There is no distinction be- tween foreign or domestic banks. Auditors who may be chosen by the Central Bank, must prepare a yearly report. Banks may be examined at other times, at the discretion of the Central Bank of Iran. | The Central Bank of Iran may prohibit any bank, foreign or domestic from conducting one or more types of business. | Evenhandedness of applica- tion of regulation overall. |

Introductory Remarks

Under the Italian legislation governing banking, the areas of savings and the exercise of credit are considered functions of public interest of the greatest importance. Any banking enterprise therefore is subject to becoming an instrument of the public administration and its economic policies.

Once a bank has been licensed to operate in Italy, its treatment is equal, regardless of whether it is a domestic or foreign-owned bank. In fact at no time, except in the latter years of the Fascist regime, has there been any different treatment of such banks under law.

Yet, it should be borne in mind that with the legislation regulating banking, the Italian national policy in the field of monetary policies would prevail whenever private banking and credit institutions deviated from the general concept regulating them or acted contrary to the public interest.

1. Deposit Restrictions

The basic legislation of 1926 protecting credit and savings states that the limits of deposits, regardless of the manner in which they are accumulated, as a general rule, may not exceed by more than twenty times the amount of the entire paid up capital plus reserves. If this amount is exceeded, the credit institution or bank shall deposit the excess in cash, government securities or government-guaranteed securities with the Central Bank.

The laws do not provide restrictions on the deposits of resident nationals; yet, restrictions could be applied by Government supervising agencies in times of financial difficulties. For instance, a deposit requirement is applicable to outward transfers of resident-owned capital for direct investments, portfolio investments, financial loans, purchases of real estate, and personal capital movements. In such cases, the transferor must lodge a lira deposit equivalent to fifty percent of the amount in a noninterest-bearing account with the bank effecting the transfer. In addition, when foreign investments are transferred between residents against lira, the transferee shall be subject to deposit requirements.

All banks, domestic or foreign, once they are allowed to operate, may have access to savings deposits if it is provided in their charter.

Under the supervision of the Bank of Italy and the Interbanking Agreement there are no restrictions as to deposit soliciting. Due to such controls, however, actual competition loses its real meaning and all evolves to local convenience and similar factors influencing the public.

2. Reserve Requirements

Italian banking legislation, the pertinent special statutes, and the provisions of the Civil Code dealing with companies, public or private, require a legal reserve fund.

Article 2428 of the Civil Code states that a sum corresponding to at least one twentieth of the net annual profits shall be set aside to establish a legal reserve fund until such reserve fund reaches one fifth of the entire capital. It adds, however, that the provisions of the

*Prepared by Kemal Vokopola, Senior Legal Specialist, European Law Division, Law Library, Library of Congress, October 1975.

special laws on banking shall remain unaffected. It is here that the banking legislation and all rules and norms enacted on banking take over in determining the amount of reserve funds. They prescribe that the formation of a reserve fund shall be obtained by the net profits in the measure of not less than 10 percent and until it reaches two-fifths of the capital.

The supervising Government agencies on credit and savings have in time of inflation imposed even stricter requirements to go as high as 70 percent.

From 1962 on, an obligatory reserve fund with the Central Bank could not be less than 15 percent in cash and the remainder in securities as specified by law or ordinances issued for the purpose by the Interministerial Committee on Credit and Savings.

3. *Priority Investments—Government Securities, Housing, Development Banks, etc.*

The Italian Banking Reform Law, enacted in 1936, provides for different regimes for the two major groups in the field of credit and savings. In the first group are the private banks collecting and providing short-term credit, and in the second are those credit institutions which operate in the field of medium and long-term credit and savings. The latter group consists of credit institutions incorporated under public law and banks of national interest closely associated with the banking activities of the Central Bank. Special public agencies have been created in Italy to operate in the area of investments, industrial development, housing, and so forth, as each is designated by law.

Thus, private banks may not become directly involved in such investing or in industrial and housing development, except by way of public credit institutions and the above-mentioned public entities specializing in these fields, such as the I.R.I. (Istituto Ricostruzione Industriale), I.M.I. (Istituto Mobiliare Italiano); and La Immobiliare Italiana.

A typical example of such involvement is that of the Banca del Credito Meridionale (Southern Credit Bank) which since the late twenties has been dealing in the development of credit in Southern Italy. This establishment was originally set up by the Bank of America, and after World War II, it was taken over by the First National City Bank of New York.

4. *Credit Ceilings*

In Italy during inflationary times the Interministerial Committee for Credit and Savings and the Central Bank first suggest and then, as necessary, impose restrictions on credit extensions or may end extensions of credit altogether in the interest of the financial well-being of the country. The Bank of Italy continues to impose these restrictions until the situation is relieved. Of course, in areas affecting international financial relations, the Italian supervisory agencies work hand in hand with other governments and international banking organizations mitigate such conditions.

5. *Loan Restrictions*

Loan restrictions, according to Italian banking legislation and practice, consist of fixing the limit between the amount of credit (loan) that a bank may give to a client and the economic potential

or patrimony of same. In other words, the concept of granting loans in proportion to the economic potentials of the borrower is a principle accepted by all types of banks.

Not all banking institutions in Italy do establish such an arithmetic ratio, however. According to scholars of banking laws and techniques and depending on the type of loan involved, banks may grant loans running from one tenth to one half of the patrimony, of the capital, or of the economic potential of a borrower.

6. Interest Rate Limits

Although interest rates may vary from bank to bank and from time to time according to the general financial and economic conditions in the country, etc., none of these interest rates from any type of bank may be applied against the dispositions issued for such purpose by the Interministerial Committee for Credit and Savings and the Bank of Italy. Article 32 of the Italian Banking Law provides the competent Government agencies with regulatory powers on this matter which make no distinctions between domestic and foreign banks.

7. Exchange Controls

Any transfer of currency or securities requires as a matter of law, authorization from the Treasury Department, the Bank of Italy, the Italian Exchange Office, and the Ministry of Foreign Trade. Inward and outward movements of nonresident capital is totally free, but loans of any kind from nonresidents to residents and from residents to nonresidents require specific authorization from the Ministry of the Treasury and of Foreign Trade. Exceptions are made with regard to long-term loans to O.E.C.D. countries and for short-term loans to E.E.C. member countries (up to one year and amounts not exceeding 250 million liras and also for medium-term loans not exceeding five years and amounts of 250 million; these loans need no authorization of any kind. Likewise, repayment of such loans may be made freely.

8. Central Bank Credit

Generally speaking, banks in Italy do not have a right to central-bank credit except for so-called discount storage agency bills. Yet central-bank funds are available to banks on a seasonal or emergency basis.

There are no access fees, nominal or otherwise, to be paid to the central bank. The central bank—in this instance, the Bank of Italy—has an open-door policy in regard to allowing other banks to borrow in accordance with the banking laws and regulations.

The Bank of Italy treats all banks, domestic or foreign, in the same manner. Restrictions are applied by this Bank when it wants to tighten the credit market or when other abnormal financial conditions exist as mentioned above.

9. Bank Examinations

Bank examinations in Italy occur on a regular yearly basis, without discrimination as to domestic versus foreign banks. But the Governor of the Bank of Italy, who presides over this public institution and

carries out the functions of the Interministerial Committee for Credit and Savings, may order additional examinations whenever he sees fit.

10. Cartel Restrictions

The cartel restrictions are well defined and elaborated upon in the Italian national banking legislation. Accordingly, unfair competition, different rates of interest, commissions, etc., may not take place.

Although a banking cartel existed in Italy, dating from the early twenties, under the supervision and guidance of the Bank of Italy, it has become a voluntary cartel later transformed by the intervention of the Bank of Italy into an interbanking agreement.

As far as it has been possible to ascertain from the information available, no restrictions resulting from such cartel or interbanking agreements have been carried out in a discriminatory way in Italy.

11. Evenhandedness of Application of Regulation Overall

A general survey of the banking legislation of Italy does not disclose any discrimination towards any banking or credit institution. Nor is it the Italian Government's general economic policy to discriminate unless banking activities are deemed contrary to the Italian national interest, in which cases the entire legal system would become operative. As far as the operation of American banking institutions in Italy are concerned, they have received favorable treatment where possible, especially after World War II and later on when American economic assistance was of great help to the development of the Italian economy.

JAPAN

BANKING

ANY DEPOSIT RESTRICTIONS

| Limits on deposits of resident nationals—domestic currency versus foreign currencies, all banks, domestic banks versus foreign banks | Limits on inflows on funds from abroad—all banks, foreign as opposed to domestic | Foreign bank access to savings deposits | Codes of fair competition impact on foreign banks of agreements restricting solicitation of deposits of other banks |
|--|--|---|---|
| (a) | (b) | (c) | (d) |

| | | | |
|--|---|----------|--|
| Resident nationals are free to make deposits in domestic or foreign banks either in local or foreign currency without any limits, while nonresidents are restricted. | Only domestic banks are free to receive capital inflows if such inflows are not longer than 1 yr. | Yes..... | Not prohibited, but discouraged to have such agreements. |
|--|---|----------|--|

RESERVE REQUIREMENTS—ALL BANKS, FOREIGN VERSUS DOMESTIC

| Direct reserve requirement—all banks, foreign versus domestic—requirement that deposits be kept with central bank or government agencies | "Special deposits" | Secondary reserves | Liquidity ratios |
|--|--------------------|--------------------|------------------|
| (a) | (b) | (c) | (d) |

| | | | |
|--|-------------------|-------------------|----------------------------|
| All banks including foreign banks are required to make deposits with the Central Bank. | Not required..... | Not required..... | Information not available. |
|--|-------------------|-------------------|----------------------------|

JAPAN—Continued

BANKING—Continued

RESERVE REQUIREMENTS—ALL BANKS, FOREIGN VERSUS DOMESTIC—Continued

| | | | | |
|---|--|--|---|--|
| Priority investments—government securities, housing, development banks, long-term loans, etc. all banks, foreign versus domestic. | Credit ceilings—either re domestic inflation or balance of payments. | Loan restrictions re classes of borrowers or uses of funds also structural restrictions (such as prohibitions against underwriting)—all banks, foreign versus domestic. | Interest rate limits—all banks, foreign versus domestic. | Exchange controls all banks, foreign versus domestic. |
| Any commercial bank including foreign bank is free to invest in the above categories. | Credit ceilings are imposed on Japanese banks only for the purpose of maintaining the sound development of Japanese banking business. | At present, no restrictions are imposed on domestic or foreign banks. Trust activities and underwriting are restricted. | The Minister of Finance is authorized to have the Policy Committee of the Bank of Japan establish the maximum interest rate of all banks including foreign banks. No other interest-fixing is allowed. | Domestic and foreign banks are subject to various exchange controls. |
| Central bank credit—access and cost—all banks, foreign versus domestic. If there is nominal access, is there nevertheless discrimination? | Bank examination—all banks, foreign versus domestic. What is the interval and nature of examination? | Cartel restrictions—against particular operations? Need for cooperation? Big versus little banks; foreign versus domestic | Evenhandedness of application of regulation overall. | |
| Equally available to foreign and domestic banks at the same rate. | All banks including foreign banks must draw up a report on business affairs for each business year (from April to September and from October to March of the next year) and report it to the Minister of Finance. The business report usually contains an operational report, a balance sheet, income statement and surplus appropriate statement. Once in each business year, the auditors of a bank must draw up a certificate of inspection recording the result of their inquiries into the affairs of the bank and the state of its property, and keep the same at the head office. The Minister may, at any time, require a bank to give him reports dealing with business affairs or to produce a certification of inspection and/or other documents and records. | Any unreasonable restraint of trade and unfair business practice by all banks including foreign banks are prohibited under the antimonopoly law. More specifically, interest-fixing agreements among banks beyond the maximum rate determined by the Bank of Japan are prohibited under the extraordinary interest adjustment law. The law concerning control of unjust contracts relating to deposits bars any bank from concluding an agreement to obtain special pecuniary benefits. Special pecuniary benefits include interests, commissions, honorariums, and any other benefits which a person making deposits receives in connection with the deposit in question. | Like domestic banks, foreign banks are regulated by the banking law. Any foreign bank desiring to establish its branch office in Japan must obtain a license from the Minister of Finance. In granting a license, however, the Minister may attach conditions to it taking into consideration reciprocal arrangements with the country in question. | |

LEBANON

BANKING

RESERVE REQUIREMENTS—ALL BANKS, FOREIGN VERSUS DOMESTIC

| Direct reserve requirements— all banks, foreign versus domestic—requirement that deposits be kept with central bank or government agencies. | "Special deposits" | Secondary reserves | Liquidity ratios |
|--|--------------------|--------------------|------------------|
| (a) | (b) | (c) | (d) |

There is no direct reserve requirement, but any bank, foreign or domestic, is required to build up a reserve fund by deducting 10 percent of the net profit of its exploitation in Lebanon. Branches of foreign banks operating in Lebanon are required, within 5 yrs from the day of notification of registration on the list, to lodge 50 percent of their own funds, in an interest-free blocked account with the Bank of Lebanon. This blocked account is non-deductible from the compulsory reserve—in built properties located in Lebanon of a value not exceeding 3,000,000 L.P., in Lebanese Treasury bills or in securities guaranteed by the State.

No..... No.....

The Central Bank may periodically determine this ratio.

| | | | | |
|--|--|---|--|--|
| Priority investments— government securities, housing, development banks, longterm loans, etc. all banks, foreign versus domestic. | Credit ceilings— either re domestic inflation or balance of payments. | Loan restrictions re classes of borrowers or uses of funds also structural re- strictions (such as prohibitions against underwriting)—all banks, foreign versus domestic. | Interest rate limits— all banks, foreign versus domestic | Exchange controls all banks, foreign versus domestic |
|--|--|---|--|--|

No such priority
investments exist
under Lebanese
law.

The Central Bank
may periodically
determine the
credit ceilings
without any
discrimination
between domestic
and foreign banks.

None..... 9 percent for all banks. No exchange control for all banks.

ANY DEPOSIT RESTRICTIONS

| | | | |
|---|---|--|--|
| Limits on deposits of resident nationals—domestic cur- rency versus foreign cur- rencies, all banks, domes- tic banks versus foreign banks | Limits on inflows of funds from abroad—all banks, foreign as opposed to domestic | Foreign bank access to savings deposits | Codes of fair competition— impact on foreign banks of agreements restricting solicitation of deposits of other banks |
| (a) | (b) | (c) | (d) |

No restrictions..... No restrictions..... No restrictions..... No restrictions.

LEBANON—Continued

BANKING—Continued

ANY DEPOSIT RESTRICTIONS—Continued

| | | | |
|---|--|---|--|
| Central bank credit—access and cost—all banks, foreign versus domestic. If there is nominal access, is there nevertheless discrimination? | Bank examination — all banks, foreign versus domestic. What is the interval and nature of examination? | Cartel restrictions—against particular operations? Need for cooperation? Big versus little banks; foreign versus domestic | Evenhandedness of application of regulation over all |
|---|--|---|--|

| | | | |
|--|---|---|--|
| Central Bank credit has access to domestic and foreign banks. But the Central Bank shall not be held obliged, as a matter of principle, to grant credit to banks. It does so insofar as it deems that such action contributes to the general interest. | There is no distinction between domestic and foreign banks. The banks' supervisory commissioners are required to establish a detailed annual report on the activities of each bank. In the course of the year, they must report immediately to the responsible authorities of the bank where they have assumed supervision any irregularities they may have noticed. As for the examination done by the Central Bank, responsible bank directors may be required to furnish all information, clarifications, or justifications that banks are supposed to submit. Or, when deemed necessary, assessors may be sent by the Central Bank to verify the situation. | There are no restrictions of any kind, since the banks operate freely within the context of a laissez-faire establishment determined by market forces and by competition. | There is no such thing as evenhandedness at all in the application of regulation, however, in a political crisis, the Government may resort to measures of a nature to secure stability in the existing banking structure. |
|--|---|---|--|

MEXICO

An outline of the more detailed information needed follows:

1. Any deposit restrictions—re:

(a) Limits on deposits of resident nationals—domestic currency vs foreign currencies—all banks, domestic banks vs foreign banks: None.

(b) Limits on inflows of funds from abroad—all banks, foreign as opposed to domestic: None.

(c) Foreign bank access to savings deposits: None.

(d) Codes of fair competition—impact on foreign banks of agreements restricting solicitation of deposits of other banks: None.

2. Reserve requirements—all banks, foreign vs domestic.

(a) Direct reserve requirements—all banks, foreign vs domestic—requirement that deposits be kept with central bank or government agencies

All banks shall keep their reserves in the Bank of Mexico.

(b) "Special deposits"

(c) Secondary reserves

(d) Liquidity ratios: Subject to the regulation of art. 11-IV General Law on Credit Institutions.

3. Priority investments—government securities, housing, development banks, long-term loans, etc.—all banks, foreign vs domestic

Priority investments subject to regulations of June 8, 1951 (P.O., June 20) and subject to approval by the National Commission on Securities.

4. Credit ceilings—either re domestic inflation or balance or payments

Subject to the regulations of art. 11-sect. VIII of the General Law on Credit Institutions.

5. Loan restrictions re classes of borrowers or uses of funds—also structural restrictions (such as prohibitions against underwriting)—all banks, foreign vs domestic

Funds are subject to loan restrictions under art. 10 of the General Law on Credit Institutions.

6. Interest rate limits—all banks, foreign vs domestic

All banks subject to the regulations issued by the Bank of Mexico.

7. Exchange controls—all banks, foreign vs domestic

All banks subject to the regulations issued by the Bank of Mexico.

8. Central bank credit—access and cost—all banks, foreign vs domestic If there is nominal access, is there nevertheless discrimination?

All banks have access to credit from the Bank of Mexico.

9. Bank examination—all banks, foreign vs domestic What is the interval and nature of examinations?

All banks subject to inspection by the Banking Commission at least once a year.

10. Cartel restrictions—against particular operations? Need for cooperation? Big vs little banks; foreign vs domestic

11. Evenhandedness of application of regulation overall. Yes.

NETHERLANDS*

In the Netherlands banking is regulated by the Banking Law (Law of April 23, 1948, *Staatsblad* I 166, as amended) and the Credit Control Law (Law of June 21, 1956, *Staatsblad* 427, as amended). The Exchange Decree (Decree of October 10, 1945, *Staatsblad* F 222, as amended) regulates the exchange aspects of banking. These laws, with their implementing decrees, give only very general rules.

The specifics of banking are regulated mainly by directives issued by the Netherlands Bank. These directives are frequently changed and are not available in the Library of Congress. Moreover, gentlemen's agreements exist between the Netherlands Bank and the individual banks, and these are not published.

A new Credit Control Law in draft form has been discussed in Parliament since 1970. Once this law is passed, it will change some of the regulations and practices now in effect.

The present Credit Control Law states in Article 21 that the Law applies equally to domestic banks and to branches of foreign banks in the Netherlands. Therefore, there is no discrimination in the Netherlands between domestic and foreign banks.

Since the Netherlands Bank through the Netherlands Embassy will supply a detailed report answering the questions posed in the present request, this report will be limited to brief answers because

*Prepared by Joyce Darilek, Legal Specialist, European Law Division, Law Library, Library of Congress, October 1975.

needed information is not yet available in the Library of Congress or may be outdated. The report from the Netherlands Bank will be forwarded as soon as available.

1. Deposit Restrictions

(a) *Limits on Deposits of Resident Nationals.*—Information not yet available.

(b) *Limits on Inflows of Funds from Abroad.*—Information not yet available.

(c) *Foreign Bank Access to Savings Deposits.*—Information not yet available.

(d) *Codes of Fair Competition.*—All banks must comply with the general practice concerning fair competition.

2. Reserve Requirements

(a) *Direct Reserve Requirements.*—Van Nierop in his "*Schets van het bankwezen*" (1972) notes that since 1967 the percentage of all means entrusted to the banks deposited with the Netherlands Bank is zero.

(b) "*Special Deposits*".—Information not yet available.

(c) *Secondary Reserves.*—Information not yet available.

(d) *Liquidity Ratios.*—According to van Nierop, these ratios are as follows: 30 percent for demand deposits, 10 percent for deposits of 1 month to 3 years, and 5 percent for deposits of a longer duration.

3. Priority Investments

Information not yet available.

4. Credit Ceilings

There are credit restrictions, but according to van Nierop it has not been applied since 1967.

5. Loan Restrictions

See Appendix.

6. Interest Rate Limits

INTEREST RATE STRUCTURE

[Percent per annum]

| | End 1961 | End 1970 | End 1971 | End June 1972 |
|---|----------|-------------------|-------------------|-------------------|
| Deposit rates: | | | | |
| Demand deposits—commercial banks..... | 0.50 | 1.30 | 1.23 | 0.66 |
| Interest-bearing chequing accounts..... | | ¹ 2.63 | ¹ 2.63 | ¹ 1.63 |
| Savings deposits—commercial banks..... | 3.25 | 4.66 | 4.59 | 4.13 |
| Savings deposits—2 years, notice..... | | 7.11 | 6.66 | 6.05 |
| Savings deposits—4 years, notice..... | | 8.04 | 7.15 | 6.54 |
| Money market rates: | | | | |
| Treasury paper, 3 months..... | 1.34 | 6.08 | 3.99 | 1.94 |
| Treasury paper, 3 years..... | 2.15 | 6.89 | 5.81 | 5.32 |
| Three-month loans to local authorities..... | 2.21 | 7.13 | 5.58 | 2.56 |
| Capital market yields: | | | | |
| Government bonds..... | 4.15 | 7.77 | 7.79 | 7.56 |
| Corporate bonds..... | n.a. | 8.01 | 7.98 | 7.47 |
| Debt certificate loans..... | n.a. | 9.00 | 8.16 | 7.76 |
| Mortgage loans..... | 5.25 | 9.50 | 9.38 | 8.50 |
| Yields on shares: | | | | |
| Dutch international concerns..... | 2.80 | 5.00 | 6.10 | 5.20 |
| Domestic shares..... | 3.60 | 4.70 | 4.70 | 3.60 |

¹ Paid on lowest half-monthly balance.

Source: Netherlands Banks, Annual Reports and Quarterly Statistics.

7. *Exchange Controls*

The International Monetary Fund in its *26th Annual Report on Exchange Restrictions* 1975 states that "exchange control is administered by the Netherlands Bank on behalf of the Ministers of Foreign Affairs, Finance, Economic Affairs, and Agriculture. All commercial banks of any importance are authorized to handle foreign exchange transactions within the scope of general and special licenses granted by the licensing authorities."

8. *Central Bank Credit*

Information not yet available.

9. *Bank Examination*

Van Nierop states the banks must report their situation monthly to the Netherlands Bank, and they must supply any information it requests. If the Netherlands Bank finds that a bank does not follow directives given, or if it notices that a situation is developing that is, or could be, dangerous to the solvability or liquidity of a banking institution, the Netherlands Bank may advise that bank to alter its conduct. If the bank does not follow this advice, the Netherlands Bank may make the advice public, unless an appeal is made to the Crown by the bank concerned.

10. *Cartel Restrictions*

Article 13, paragraph 1 under c, of the Credit Control Law states that registered credit institutions may not merge with other enterprises or institutions without a statement from the Netherlands Bank that it does not have any objections to such a merger.

The Netherlands Bank may refuse to give a "statement of no objections" if it thinks that such a merger would lead to an undesirable development in the credit system or would be contrary to a healthy banking policy. The bank concerned may appeal this decision to the Minister of Finances.

11. *Evenhandedness of Application of Regulation Overall*

Information not yet available.

APPENDIX

EXCERPT FROM INTERNATIONAL MONETARY FUND, TWENTY-SIXTH ANNUAL
REPORT ON EXCHANGE RESTRICTIONS, 1975, WASHINGTON, D.C.

NETHERLANDS

CAPITAL

Inward and outward capital transfers and the shifting of foreign-owned capital within the Netherlands from one asset to another are subject to control, but general licenses have been granted for many types of capital transaction. Borrowing and lending abroad by bank and nonbank residents (with the exception of specified banking operations and of the granting of credit in respect of imports or exports of commodities) are restricted for reasons of capital market policy and, as far as borrowing is concerned, either to control the contracting of foreign debt by local authorities or for reasons of monetary and reserve policy. Apart from guilder issues on the Netherlands capital market (see below), most lending to nonresidents is liberally permitted. Borrowing abroad by nonbank residents is at present restricted, in principle, to amounts used for investments abroad (which is considered to include the purchase of ships and aircraft abroad). Borrowing from nonresident banks by private industry and other nonbank residents is not normally permitted, and loans from other nonresident sources (except suppliers' credits with a maturity customary in the trade concerned) are subject to individual approval; licenses for borrowing abroad from nonbank nonresidents are granted on application, provided that the funds are used for direct investment abroad or for lending to nonresidents, but the Netherlands Bank, in principle, does not permit nonbank residents to take up financial credits abroad other than loans with a fixed maturity of at least five years from nonresident enterprises belonging to the same concern as the borrower. There is a general license for loans up to f. 100,000 taken up by residents from nonresidents, provided that a resident in any calendar year does not borrow more than f. 100,000 from the same nonresident. A similar license has been issued for lending to nonresidents. Furthermore, a general license permits authorized banks to grant financial credits for up to 12 months to nonbank nonresidents and for any period to nonresident banks; authorized banks are on application granted licenses to lend to nonbank nonresidents for periods in excess of 12 months.

Special regulations exist for borrowing and lending between head offices (in the Netherlands or abroad) of multinational corporations and their branches and subsidiaries; at present, the Netherlands Bank does not permit financial loans to be taken up abroad within a multinational corporation, except as indicated above. Nonbank residents are not normally permitted to purchase foreign treasury bills or other foreign short-term instruments. Purchases of Netherlands treasury paper and guilder bank acceptances by nonresidents, including central banks, are prohibited. Capital transactions, whether freely permitted or not, must be notified to the Balance of Payments Department of the Netherlands Bank; this is true also of all import and export credits for periods in excess of one year and of advance payments in excess of f. 250,000 to be received for exports.

Capital issues in the Netherlands on behalf of nonresidents are restricted. During the last ten years or so, international financial institutions and the authorities of the nonmetropolitan areas of the Kingdom of the Netherlands have been the only nonresidents allowed to make bond issues denominated in guilders. Such issues are individually licensed by the Netherlands Bank in accordance with the prospects for the domestic capital market and the balance of payments. The Netherlands Bank, subject to certain conditions, allows nonresidents access to the debt certificate sector of the domestic capital market (the market for *onderhandse leningen*). Authorized banks may on request be licensed to lead syndicates for the issue of medium-term Euro-guilder notes, the proceeds of which normally must not be spent in the Netherlands.

Unless special permission to the contrary is obtained from the Netherlands Bank, authorized banks' foreign liabilities must not exceed their foreign claims, i.e., they are not allowed to maintain a negative net external position. In observing this regulation, each bank has a leeway of f. 5 million; the calculation of the net foreign position is based on the foreign position in all currencies, including guilders, and on the sum of short-term and long-term assets and liabilities. Subject to this limitation, banks may freely accept demand deposits from nonresidents, in domestic or foreign currency, as well as time deposits in foreign currency. However, subject to minor exemptions for physical persons, banks are prohibited from paying interest on nonresident-held guilder demand deposits and from accepting guilder time deposits from nonresidents.

Inward direct investment by nonresidents and local borrowing by nonresident-owned or nonresident-controlled companies for use in the Netherlands are subject to license, which is usually granted. The transfer abroad of the proceeds from the sale or liquidation of nonresident investments in industrial enterprises and other businesses established in the Netherlands is freely permitted. Nonresidents may freely purchase real estate in the Netherlands for personal use or investment. Direct investment abroad by residents is authorized on application.

Transactions between residents and nonresidents in foreign securities and domestic securities take place at official market rates and, with minor exceptions, are unrestricted; the regulations concerning securities are not applicable to treasury bills or certificates of deposit. Residents may freely purchase officially listed securities abroad, with the exception of guilder-denominated Euro-bonds issued by nonresidents; foreign bonds denominated in guilders or otherwise linked to the parity of the Guilder may be purchased freely only when listed on the Amsterdam stock exchange. The foreign currency proceeds from securities sold abroad by residents must be deposited with an authorized bank or securities broker in the Netherlands and may be sold or retained. The proceeds of securities sold in the Netherlands by nonresidents are transferable in any currency, irrespective of the seller's country of domicile or residence. Nonresidents may have their securities, Netherlands or foreign, exported to them; for the exportation of listed guilder bonds an individual authorization is required, which is granted upon application. Domestic and foreign securities held abroad by a resident are subject to a deposit requirement, but the Netherlands Bank grants exemptions on application; securities held in the Netherlands are not subject to deposit.

Residents may freely purchase real estate abroad. Gifts and donations to nonresidents are free. Emigrants may export any amount in foreign and domestic currency. They acquire the status of nonresidents upon leaving the Netherlands, provided that they have declared their intention to settle abroad for more than three years, and may upon departure have remitted to them their total assets in the Netherlands.

Payments to nonresident beneficiaries may be made freely in respect of inheritances from estates being distributed in the Netherlands.

SUPPLEMENTARY REPORT ON NETHERLANDS BANKING

As indicated earlier, completion of this survey was dependent upon the receipt of information unavailable in the Library's sources. This information has now been obtained from the Netherlands Bank through the Netherlands Embassy and is incorporated in this supplementary report.

Before presenting these data, a few points need to be emphasized. The Netherlands Bank is the central bank, and it stresses the fact, emphasized in the previous report, that there is no discrimination between domestic and foreign banks in the Netherlands. Possible future developments have been indicated where pertinent. These developments depend on the passage of the Credit Control Bill which has been introduced again in Parliament in 1975 in a revised form.

1. *Deposit Restrictions*

(a) *Limits on Deposits of Resident Nationals.*—There are no limits on deposits of resident nationals in either domestic or foreign currency.

(b) *Limits on Inflows on Funds from Abroad.*—Since March 9, 1972, residents have not been permitted to pay any interest on guilder demand deposits of nonresidents, unless this involves the customary rate of interest paid on deposits of natural persons not exceeding at present f 100,000.

Normally no permission is granted to residents (banks and non-banks) to take out loans abroad. An exception may be made for funds to be used only for direct investment abroad or for financial credits taken up by residents from nonresidents (notes—company loans) for a fixed term of not less than 5 years.

By general permission, loans may be taken out from nonresidents up to f 100,000 per nonresident per year.

Authorized banks may accept time-deposits in foreign currency from nonresidents.

Guilder payments from nonresidents may not be accepted on time deposit, except on savings accounts of natural persons. Total accumulated balances on such savings accounts may not exceed f 100,000.

(c) *Foreign Bank Access to Savings—Deposits.* There are no restrictions for foreign banks in regard to access to savings deposits.

(d) *Codes of Fair Competition.*—According to the Law on Economic Competition (*Wet Economische Mededinging*) of June 28, 1956, every competition arrangement has to be communicated to the Minister of Economic Affairs. In the banking field there are no such competition arrangements.

2. *Reserve Requirements*

(a) *Direct Reserve Requirements.*—There is a cash reserve agreement with the banks having deposit liabilities of more than f 25 million under which balances with the central bank must be held in relation to the bank's short-term (domestic and foreign) guilder obligations. The agreement is only applied when the money market is easy.

(b) *Special Deposits.*—There are no special deposits.

(c) and (d) *Secondary Reserves and Liquidity Ratios.*—The liquidity requirements have been in force since July 1973. There is a system of indirect credit control under which the banks have to hold certain liquid assets, primarily treasury paper, in relation to their domestic deposit liabilities.

3. *Priority Investments*

There are no priority investments.

4. *Credit Ceilings*

Credit ceilings are not in force anymore. See 2 (c) and (d).

5. *Loan Restrictions*

There are no loan restrictions.

6. *Interest Rate Limits*

The Dutch interest rate structure was shown in the chart supplied in the earlier report. It should be noted that the rates have gone up

in line with the global trends since the last reported year 1972. There are no interest rate limits in the Netherlands, as they are incompatible with the Dutch open economy.

7. *Exchange Controls*

Exchange controls are applied without distinction between domestic and foreign banks established in the Netherlands.

8. *Central Bank Credit*

The banks have access to the central bank at official rates up to an amount related to their deposit liabilities.

9. *Bank Examination*

The same procedure concerning bank examination is in effect for domestic and foreign banks alike, and there are no intervals for examinations. Examinations serve the purpose of checking the solvency and liquidity of the banks.

10. *Cartel Restrictions*

The general setup of the Dutch cartel legislation is that cartels are permitted unless specifically forbidden. Cooperation between the banks takes place in the Dutch Bankers' Association (Nederlandse Bankiersvereniging) of which domestic and foreign banks are members. However, for official mergers a "statement of no objection" from the Netherlands Bank is required.

11. *Evenhandedness of Application of Regulation Overall*

All regulations are applied evenhandedly.

PANAMA

An outline of the more detailed information needed follows:

1. Any deposit restrictions—re:

(a) Limits on deposits of resident nationals—domestic currency vs. foreign currencies, all banks, domestic banks vs. foreign banks.

No restrictions, except that the public sector makes its deposits in the National Bank of Panama.

(b) Limits on inflows of funds from abroad—all banks, foreign as opposed to domestic.

No limits (all banks have the right to be the beneficiary of a contingent credit given by a foreign bank, or its parent company, in U.S. dollars, in the amount of 10 percent of total assets.

(c) Foreign bank access to savings deposits.

Yes.

(d) Codes of fair competition—impact on foreign banks of agreements restricting solicitation of deposits of other banks.

2. Reserve requirements—all banks, foreign vs. domestic.

(a) Direct reserve requirements—all banks, foreign vs. domestic—requirement that deposits be kept with central bank or government agencies.

All banks must keep a "legal reserve" (no less than five percent, nor more than 25 percent of the total local deposits. No less than 30 percent of the reserve shall consist of legal tender of Panama, held by each bank. The remainder may consist of demand

deposits in the National Bank of Panama, or bills of the National Treasury, but the Commission may change this rule.

(b) "Special deposits".

(c) Secondary reserves.

All banks must keep a "capital reserve" (law 93, Nov. 23, 1974).

(d) Liquidity ratios: minimum net balance of liquid assets: 35 percent.

3. Priority investments—government securities, housing, development banks, long-term loans, etc.—all banks, foreign vs. domestic.

No discrimination. No investment priorities, except that non-mortgage banks must invest no less than 50 percent of local savings deposits in mortgaged housing loans (law 104, Oct. 4, 1973).

4. Credit ceilings—either re domestic inflation or balance of payments.

5. Loan restrictions re classes of borrowers or uses of funds—also structural restrictions (such as prohibitions against underwriting)—all banks, foreign vs. domestic.

Some special types of loans are managed by public institutions such as the National Mortgage Bank, the Agricultural Development Bank (*Banco de Desarrollo Agropecuario*).

6. Interest rate limits—all banks, foreign vs. domestic.

No limits on foreign and local deposits. The Commission shall fix maximum interests on savings deposits (with a minimum difference in favor of mortgage banks).

7. Exchange controls—all banks, foreign vs. domestic.

No.

8. Central bank credit—access and cost—all banks, foreign vs. domestic. If there is nominal access, is there nevertheless discrimination?

No central bank credits. Equal treatment to private banks by the National Banking Commission.

9. Bank examination—all banks, foreign vs. domestic. What is the interval and nature of examinations?

Official banks have special control system. All private banks are examined on a regular basis. Every two years: examination of financial status and solvency by the Commission. Four times a year: a statement of credit facilities and other assets.

10. Cartel restrictions—against particular operations? Need for cooperation? Big vs. little banks; foreign vs. domestic.

Only the general prohibition in the Constitution of 1972 against restrictions on free trade and competition.

11. Evenhandedness of application of regulation overall.

Yes.

PERU*

An outline of the more detailed information needed follows:

1. Any deposit restrictions—re:

(a) Limits on deposits of resident nationals—domestic currency vs. foreign currencies, all banks, domestic banks vs. foreign banks.

*Peru is a member of the Andean Pact and as such has adhered to the Cartagena Resolutions 24 and 37 on common treatment of foreign investments, which precludes new entries of foreign banks and sets forth a three-year term for termination of operations thereof. However, branches and affiliates of foreign banks are exempted.

Savings ceilings: *soles* 150,000.00 and 500,000.00 for individuals and corporations, respectively.

(b) Limits on inflows of funds from abroad—all banks, foreign as opposed to domestic.

Controlled. Restrictions depend on state of national reserve of international funds.

(c) Foreign bank access to savings deposits.

Restricted.

(d) Codes of fair competition—impact on foreign banks of agreements restricting solicitation of deposits of other banks.

2. Reserve requirements—all banks, foreign vs. domestic.

(a) Direct reserve requirements—all banks, foreign vs. domestic—requirement that deposits be kept with central bank or government agencies.

100 percent of paid capital; 15 percent of deposits and accounts receivable “at sight,” six percent of term deposits and accounts receivable.

(b) “Special deposits”.

As determined by Central Reserve Bank in each case. 10 percent of investment to cover business risks.

(c) Secondary reserves.

Foreign branches and subsidiaries are required to maintain permanent minimum investment of 60 million *soles* in the country.

(d) Liquidity ratios.

3. Priority investments—government securities, housing, development banks, long-term loans, etc.—all banks, foreign vs. domestic.

4. Credit ceilings—either re domestic inflation or balance of payments.

Yes, to be determined by Central Reserve Bank, periodically.

5. Loan restrictions re classes of borrowers or uses of funds—also structural restrictions (such as prohibitions against underwriting)—all banks, foreign vs. domestic.

No underwriting allowed to existing foreign banks.

6. Interest rate limits—all banks, foreign vs. domestic.

Controlled by Central Reserve Bank.

7. Exchange controls—all banks, foreign vs. domestic.

Yes.

8. Central bank credit—access and cost—all banks, foreign vs. domestic. If there is nominal access, is there nevertheless discrimination?

To be determined by Central Reserve Bank.

9. Bank examination—all banks, foreign vs. domestic. What is the interval and nature of examinations?

As required. Regularly and at any time by *Superintendencia de Bancos*.

10. Cartel restrictions—against particular operations? Need for cooperation? Big vs. little banks, foreign vs. domestic.

Foreigners can only own up to 20 percent of former foreign banks. No participation is allowed on national banks.

11. Evenhandedness of application of regulation overall.

Uncertain.

PHILIPPINES

An outline of the more detailed information needed follows:

1. Any deposit restrictions—re: None.

(a) Limits on deposits of resident nationals—domestic currency vs. foreign currencies, all banks, domestic banks vs. foreign banks.

(b) Limits on inflows of funds from abroad—all banks, foreign as opposed to domestic.

(c) Foreign bank access to savings deposits.

(d) Code of fair competition—impact on foreign banks of agreements restricting solicitation of deposits of other banks.

2. Reserve requirements—all banks, foreign vs. domestic.

(a) Direct reserve requirements—all banks, foreign vs. domestic—requirement that deposits be kept with central bank or government agencies.

All banks must have reserve requirements deposited in the Central Bank.

(b) "Special deposits".

(c) Secondary reserves.

(d) Liquidity ratios: 20 percent for commercial banks; eight percent for savings banks; time deposits for all banks with remaining maturity of two years are exempt.

3. Priority investments—government securities, housing, development banks, long-term loans, etc.—all banks, foreign vs. domestic.

Agrarian reform and agricultural credits have investment priorities over Government securities. Branches must invest 75 percent of their accumulated deposits in the region in which they are located.

4. Credit ceilings—either re domestic inflation or balance of payments.

Stockholders are subject to credit ceilings; on real estate security loans shall not exceed 50 percent of the total savings and time deposits of the banks. Loans on real estate shall not exceed 70 percent of its value; on chattels, 50 percent of said value.

5. Loan restrictions re classes of borrowers or uses of funds—also structural restrictions (such as prohibitions against underwriting)—all banks, foreign vs. domestic.

Among others, no loan on the security of real estate shall have a maturity in excess of 15 years, except those for house building, which may be up to 20 years; there are other restrictions on loans secured by pledge, or by livestock.

6. Interest rate limits—all banks, foreign vs. domestic.

All banks subject to regulation. Commercial banks 11 percent on two years maturity; 14 percent over two years maturity; savings banks, 11½ percent on two years maturity; 14 percent over two years maturity; maximum interest rate on time deposit withdrawn before maturity is 8½ percent and nine percent for commercial banks and savings banks, respectively.

7. Exchange controls—all banks, foreign vs. domestic.

All banks subject to regulations on exchange control.

8. Central bank credit—access and cost—all banks, foreign vs. domestic. If there is nominal access, is there nevertheless discrimination?

All banks have access to it. Yes, foreign banks are limited to $\frac{1}{2}$ of the level of their respective "net due to head office and branches outside of the Philippines" account.

9. Bank examination—all banks, foreign vs. domestic. What is the interval and nature of examinations?

All banks subject to examination by the Central Bank (Central Bank Act, sect. 25). Periodical examination, usually once a year or when deemed expedient.

10. Cartel restrictions—against particular operations? Need for cooperation? Big vs. little banks; foreign vs. domestic.

11. Evenhandedness of application of regulation overall.

Yes.

SINGAPORE

BANKING

ANY DEPOSIT RESTRICTIONS

| Limits on deposits of resident nationals—domestic currency versus foreign currencies, all banks, domestic banks versus foreign banks | Limits on inflows of funds from abroad—all banks, foreign as opposed to domestic | Foreign bank access to savings deposits | Codes of fair competition—impact on foreign banks of agreements restricting solicitation of deposits of other banks |
|--|--|---|---|
| (a) | (b) | (c) | (d) |
| For resident nationals, ACU deposits are limited to a maximum of S\$3,000,000 for companies, and to S\$100,000 for individuals. | No limits..... | Same as domestic banks..... | No agreements. |

RESERVE REQUIREMENTS—ALL BANKS, FOREIGN VERSUS DOMESTIC

| Direct reserve requirements—all banks, foreign versus domestic—requirement that deposits be kept with central bank or government agencies | "Special deposits" | Secondary reserves | Liquidity ratios |
|---|--|---|--|
| (a) | (b) | (c) | (d) |
| All banks are required to keep 20 percent of liabilities as direct reserves, 10 percent in primary reserves and 20 percent in total. A minimum cash balance of 6 percent of total deposits must also be maintained with the MAS. Local banks are also required to transfer 50 percent of net annual profits to their reserve fund if the reserve fund is less than 50 percent of paid up capital, and to transfer 25 percent of net profits if the reserve fund is 50 percent but less than 100 percent of paid up capital. Even where the reserve fund is 100 percent of paid up capital, the banks are required to transfer 5 percent of net annual profits to the reserve fund. Foreign banks are exempted from this provision if the MAS deems their aggregate reserve fund to be adequate. | None; special deposit requirement was abolished in March 1974. | 10 percent primary liquid assets and 20 percent total liquid assets must be held. | Total liquid assets of 20 percent of deposits must be maintained; in computing this ratio, foreign balances and Treasury bills are excluded. |

SINGAPORE—Continued

BANKING—Continued

RESERVE REQUIREMENTS—ALL BANKS, FOREIGN VERSUS DOMESTIC—Continued

| Priority investments—government securities, housing, development banks, long-term loans, etc., all banks, foreign versus domestic. | Credit ceilings—either re domestic inflation or balance of payments. | Loan restrictions re classes of borrowers or uses of funds also structural restrictions (such as prohibitions against underwriting)—all banks, foreign versus domestic. | Interest rate limits—all banks, foreign versus domestic. | Exchange controls all banks, foreign versus domestic. |
|--|--|--|--|--|
| All commercial banks are required to keep part of their mandatory liquidity reserves in Treasury bills and other short-term government obligations and are encouraged through tax concessions to buy longer-term government bonds. | See next column..... | Banks are prohibited from granting advances, loans, credit facilities in excess of 60 percent of capital funds, unless approval has been given by the MAS; in no case may the amount exceed 100 percent of the capital funds. There are exceptions, such as transactions with the government. Loans secured by immovable property are also limited to 30 percent of the bank's deposits in Singapore on the security of immovable property for the purpose of purchasing, improving, or altering the immovable property. In certain cases, this limit may be raised to 60 percent of deposits. | No limits—all rates have been freed. | MAS approval is required for the import of bank notes, Treasury bills, certificates of title of any security, and for the export of postal orders, Treasury bills, gold, certificates of title of any security, assurance policies, bills of exchange or promissory notes for currencies of nonscheduled territories, and unauthorized travellers' checks. |
| Central bank credit—access and cost—all banks, foreign versus domestic. If there is nominal access, is there nevertheless discrimination? | Bank examination — all banks, foreign versus domestic. What is the interval and nature of examination? | Cartel restrictions—against particular operations? Need for cooperation? Big versus little banks; foreign versus domestic | Evenhandedness of application of regulation overall | |
| No discrimination; equal access. | All banks are liable to inspection by the MAS, from time to time, under conditions of secrecy. Investigation can be made of the books, accounts, and transactions of the bank, if MAS has reason to believe that the bank is carrying on business detrimental to the interests of its depositors and other creditors, or has insufficient assets to cover its liabilities to the public, or is contravening the provision of the Banking Act. The interval of routine inspections varies according to availability of MAS staff and is generally not more than once a year | No cartel restrictions..... | Excellent. | |

SPAIN

An outline of the more detailed information needed follows:

1. Any deposit restrictions—re: None.

(a) Limits on deposits of resident nationals—domestic currency vs. foreign currencies, all banks, domestic vs. foreign banks.

(b) Limits on inflows of funds from abroad—all banks, foreign as opposed to domestic.

(c) Foreign bank access to savings deposits.

(d) Codes of fair competition—impact on foreign banks of agreements restricting solicitation of deposits of other banks.

2. Reserve requirements—all banks, foreign vs. domestic.

(a) Direct reserve requirements—all banks, foreign vs. domestic—requirement that deposits be kept with central bank or government agencies.

All banks subject to regulations of decree-law 56 of Dec. 6, 1962 (*Boletín Oficial*, Dec. 7, 1972).

(b) "Special deposits".

(c) Secondary reserves.

(d) Liquidity ratios: Regulated by Order of the Ministry of Finance of Jan. 26, 1963 (B.O., Feb. 8, 1963), it shall be established within a minimum limit of 10 percent and a maximum limit of 20 percent.

3. Priority investments—government securities, housing, development banks, long-term loans, etc.—all banks foreign vs. domestic.

All banks are subject to priority investments under law of Dec. 26, 1958.

4. Credit ceilings—either re domestic inflation or balance of payments.

For loans of more than 18 months, no more than 25 percent of the total deposits (Order of July 21, 1969).

5. Loan restrictions re classes of borrowers or uses of funds—also structural restrictions (such as prohibitions against underwriting)—all banks, foreign vs. domestic.

Subject to regulation by decree 702 of Apr. 26, 1969 and Order of Apr. 28, 1969.

6. Interest rate limits—all banks, foreign vs. domestic.

All banks subject to regulation by the Ministry of Finance. Decreto Ley 18, June 7, 1962 (B.O., June 13, 1962), and Order of Mar. 24, 1972 (B.O., Apr. 1, 1973).

7. Exchange controls—all banks, foreign vs. domestic.

All banks subject to regulations issued by Order of July 28, 1962 (B.O., Aug. 4).

8. Central bank credit—access and cost—all banks, foreign vs. domestic. If there is nominal access, is there nevertheless discrimination?

All banks have access to credit from the Bank of Spain, usually at 20 percent.

9. Bank examination—all banks, foreign vs. domestic. What is the interval and nature of examinations?

All banks subject to examination by the *Banco de España*. Periodical and extraordinary.

10. Cartel restrictions—against particular operations? Need for cooperation? Big vs. little banks; foreign vs. domestic.

11. Evenhandedness of application of regulation overall.

Yes.

SWEDEN*

The Joint Economic Committee study of 1967 entitled "Economic Policies and Practices, Paper No. 10, Foreign Government Restraint on United States Bank Operations Abroad" does not cover Sweden. In fact, the 1967 study expressly says in its tables that the questions are not applicable to Sweden, and the study further states on pages 13-14:

Swedish banking law is very specific in stating that a bank's founders, its directors and its stockholders must be Swedish citizens, thus effectively impairing foreign banking in that country . . . While Swedish prohibitions against foreign banks are a matter of long standing, these prohibitions are, in fact, matters of [statutory] law that could be changed . . .

Such a change has not occurred. The Swedish Banking Act of 1955 was very substantially amended in 1968, and a number of relatively minor amendments have been added since then. However, the Act, as amended, is still very explicit in making banking in Sweden the prerogative of Swedish nationals, and there seem to be no signs that the Act will be amended in this respect within the near future. Consequently, the 1967 JEC study is still completely up-to-date as far as far as Sweden goes.

SWITZERLAND**

Freedom of trade is guaranteed in Switzerland by the Swiss Federal Constitution. This country traditionally has a strong free-market economy with a free enterprise system, and its import controls have been kept to a minimum. There are no specific tariff preferences or incentives, and import restrictions or import licenses are limited to some agricultural commodities and a few other items. Switzerland has had no foreign exchange controls except for transactions with a few countries. Only recently, because of the international monetary crisis, has the Government been forced to place certain restrictions on the freedom of trade.

Business organizations, including banks, are regulated by the Swiss Code of Obligations which places some restrictions on establishing a foreign-controlled corporation. Section 711 requires that if one person is the sole director, he must be a Swiss citizen and domiciled in Switzerland. If there are several directors, the majority of them must be Swiss citizens domiciled in Switzerland. Any person doing business in Switzerland must first secure a resident permit authorizing him to work.

In order to conduct business operations, banks must have a license issued by the Federal Banking Commission and must be registered

*Prepared by Dr. Flinn Henriksen, senior legal specialist, European Law Division, Law Library, Library of Congress, October 1975.

**Prepared by Dr. Alois Bohmer, senior legal specialist, European Law Division, Law Library, Library of Congress, October 1975.

in the Register of Commerce. The license to establish a bank which is to be organized under Swiss law and subject to a controlling foreign influence is dependent on the condition that reciprocity is granted by the country where the main bank has its residence or registered office. The bank to be established must give its assurance to the National Bank that the Swiss credit and monetary policies will be protected. The same applies for approval to establish a registered office, branch office, or agency of a foreign or foreign-controlled bank and for approval to appoint the permanent representative of a foreign bank. Foreign banks must provide for each independently operated office an endowment capital of at least 2 million SwF for the control of imports, exports, and payments. The Swiss National Bank is the executive authority in matters of currency.

In December 1972, the Swiss Government passed legislation necessary to enact the following measures aimed at slowing inflation: limitation of the credit extension of commercial banks to a certain annual growth rate; a change of banks' minimum reserve requirements for foreign and domestic funds; further limitations of new issues in the capital market; export deposits; changes of depreciation allowances; restrictions on new construction; and surveillance of prices, wages, and dividends. All of these measures can be applied whenever necessary and to the degree deemed most appropriate at the time.

1. *Deposit Restrictions*

There are no legal restrictions on the deposits of resident nationals, but an approval by the Swiss National Bank is required for deposits made for nonresidents by Swiss nationals.

Banks are not permitted to pay interest on Swiss Franc deposits received from nonresidents (*Ausländische Gelder*). In fact, they must charge a commission ("negative interest") at the rate, at present, of 10 percent per calendar quarter on any deposits made after October 31, 1974, that are held by nonresidents. This provision has been frequently changed.

Access to information about savings deposits, including also such by nonresidents, would be contrary to bank secrecy provisions which prohibit banks and bankers from disclosing any information acquired in the course of their business (professional secrecy). Section 47 of the Banking Law of 1934, as amended in 1971, attaches criminal sanctions to any breach of such secrecy.

Banks must refrain from misleading or blatant advertising of their Swiss branches or institutions. The Federal Council may limit or even completely forbid solicitation for credits, installment sales, client accounts, credit cards, and the rental of movables.

2. *Reserve Requirements*

Under the Banking Law (Sec. 5) all banks must transfer at least one-twentieth of their yearly net profits to a reserve fund designated to cover losses and permit write-offs. The transfers must be effected until this fund amounts to one-fifth of the paid-in capital or, in the case of banks which no paid-in capital, to one-twentieth of the deposits.

To slow down inflation, the Federal Council has been authorized to order every bank to keep an interest-free deposit (*Mindestguthaben*) with the National Bank in an amount to be determined by the percentage of growth and the level of various types of a bank's liability.

This deposit may be doubled in the case of liabilities against creditors domiciled abroad. Moreover, the National Bank has been authorized to order banks to balance their foreign currency positions daily.

Banks must maintain adequate ratios between their own resources and their total liabilities, and between their liquid assets and their short term liabilities. The Implementing Ordinance spells out the percentage ratios of readily available resources and of easily disposable assets which are to be maintained at all times.

3. Priority Investments

Foreign investment funds are subject to special regulations. Banks and other financial intermediaries must refrain from investing foreign funds in Swiss securities, foreign securities denominated in Swiss Francs, and mortgages on Swiss real estate, with certain exceptions concerning nonresidents. The physical importation and exportation of Swiss and foreign securities are unrestricted.

Excessive liquidity and inflation has made house, apartment, and land prices soar and set off a construction boom fed by Italian and German money. Therefore, at the end of 1972, the Government curtailed investments in the construction industry by forbidding builders to carry out most of their intended construction and by tightening credit. As a result of the new controls and a squeeze on credit, the construction industry has been hard hit. However, these limitations were eased or rescinded in 1974 and 1975.

4. Credit Ceilings

At the end of 1972, to help to cool off the boom in the construction industry, the Federal Assembly authorized the Federal Council to impose limitations on the domestic credits of banks by binding them to a certain annual growth rate fixed by the Swiss National Bank. In cases where credit was to be used abroad, exceptions could be made by the National Bank. In hardship cases, the National Bank could approve additional quotas. However, after investment activity in this industry had slowed considerably and demands arose for a relaxation of credit restraints, the Government repealed the credit limitations as of May 1, 1975.

5. Loan Restrictions

Borrowing by residents from nonresidents in either domestic or foreign currency requires the prior approval of the Swiss National Bank. Although approval is normally granted, some exceptions are made. A loan to a nonresident, when it exceeds 10 million SwF and has a maturity of 12 months or more, also requires prior approval. All proposed first placings of medium-term negotiable papers (notes, certificates of deposit, etc.) in amounts of 3 million SwF or more must be submitted to the National Bank for examination. All capital export denominated in Swiss Francs and licensed by the National Bank (bond issues, placing of notes, and other loans and credits—except export credit) must be converted into foreign currency at the National Bank. Issues by foreign issuers of debt instruments expressed in Swiss Francs and having a maturity of less than 12 months are discouraged. The same applies to foreign bond issues denominated in Swiss Francs in amounts below 10 million SwF.

Furthermore, borrowings of Swiss Francs or foreign currencies abroad by Swiss individuals and companies are subject to prior authorization by the National Bank. In addition, foreign borrowers are requested to convert 100 percent of the loan granted into foreign currency in Switzerland at the prevailing market rate, whereas 10 percent of capital market exports must be converted into dollars at the National Bank at the highest daily interbank selling rate.

6. *Interest Rate Limits*

According to an article in *The New York Times* of August 23, 1975, p. 27, the Swiss National Bank, in an effort to lift Switzerland out of the recession, announced a cut of one-half percent in the country's key lending rate, thus placing the Swiss bank rate at 4 percent.

7. *Exchange Controls*

Except for transactions with a few countries there are no foreign exchange restrictions in Switzerland. Foreign banknotes are negotiated freely in Switzerland at rates determined by the interplay of supply and demand.

The great influx into Switzerland of foreign funds, especially "petrodollars," prompted the Government to issue the Decree of October 8, 1971, on the Protection of Currency, by which the Federal Council was authorized to issue, in agreement with the Swiss National Bank, extraordinary measures to prevent an undesired influx of foreign currency. The Decree also provides that agreements between the Swiss National Bank and a majority of the banks may be declared binding by the Federal Council. The National Bank is authorized to carry out the provisions issued on basis of this Decree. Subsequently several other decrees were issued which regulated the influx of foreign currency.

In connection with the banning of interest on deposits received from nonresidents and with the charging of a commission, the National Bank may, in order to prevent evasive practices, restrict the volume of forward sales in Swiss Francs to foreigners. Such practices have particularly involved the temporary conversion into dollars of Swiss Franc accounts maintained by nonresidents with a Swiss bank.

8. *Central Bank Credit*

One of the principal tasks of the Swiss National Bank is to implement a credit and monetary policy, especially the issuance of loans. The only limitation to its discretion, according to the law, is that the policy must serve the general interests of the country. In connection with this authorization, the law enumerates the transactions in capital exports to which the National Bank may object; the law also influence the raising of the interest rate on the cash obligations of banks with a balance sum of at least 20 million SwF. Whether the Swiss National Bank discriminates against foreign banks doing business in Switzerland in terms of access to its services and the cost of discounting is not known here.

In Switzerland the monetary policy is mainly based on so-called Gentlemen's Agreements between the National Bank and the private banks, and these are not reported in our legal sources.

9. Bank Examination

All banks must draw up annual statements of their financial condition; and those with total assets of no less than 50 million SwF must, in addition, prepare an interim balance sheet. Both of these instruments must be published. The banks must submit their annual balance sheets to the National Bank, which then may request additional information.

Each year the banks must submit their annual statements of their financial condition to a recognized auditing firm independent of the bank.

10. Cartel Restrictions

Cartels or similar organizations which restrain the free market or exclude a third person from free competition are illegal. The Cartel Commission keeps guard over any violation of the law.

The Banking Law provides that the loans granted by a bank to any single customer, as well as the participation in any single company, must be in appropriate relationship to the bank's own resources. Such a credit restriction, however, may lead to a competitive disadvantage for a given bank or group of banks, especially small ones. The larger banks are generally in a more favorable position. Yet, the policy to protect creditors has prevailed over the objection to restrain free competition.

11. Evenhandedness of Application of Regulation

No information on this question could be located in the Library of Congress.

UNITED KINGDOM*

1. Any Deposit Restrictions

(a) Limits on deposits of resident nationals:

Resident nationals require Exchange Control permission to acquire foreign exchange. This permission is only given for approved purposes and would not be given merely to enable the resident to hold currency on deposit. Residents may, however, hold currency on temporary deposit with any authorized bank, whether United Kingdom or foreign owned, pending its use for an approved purpose.

Any financial institution which is recognized as a bank may, irrespective of the residential status of its parent, accept sterling deposits from residents in the United Kingdom without specific Exchange Control authority. Any recognized bank, irrespective of its parentage, which wishes to take sterling deposits from non-residents requires a specific Exchange Control consent to do so, but the terms and conditions of such consents (which vary according to the size and status of the bank) are not basically affected by the country of origin of the parent bank.

As far as the acceptance of foreign currency deposits is concerned, this business is largely restricted to what is known as Authorised Banks (banks appointed by H. M. Treasury to act as authorized

*Prepared by (Mrs.) Audrey F. Glover, legal specialist, American-British Law Division, Law Library, Library of Congress, October 1975.

dealers in foreign exchange under the terms of the Exchange Control Act).¹ Certain other banks may undertake a limit amount of foreign currency business during a period prior to their appointment as Authorised Banks. Here again the criteria governing the appointment of banks to Authorised Bank status is not basically governed by the residential status of the parent of that bank. Thus, there are no inherent differences in the treatment accorded to United States owned, other non-resident owned, or domestically owned banks and the guidelines for such appointment are largely based on "banking recognition" status (for details see Schedule).

(b) Limits on inflows of funds from abroad:

There are no limits on inflows of currency, although nonresidents require Exchange Control permission to use foreign currency held in the United Kingdom to acquire controlling interests in United Kingdom companies. The Bank of England, in consultation with the Office of Fair Trading, maintains a close watch over changes in the ownership of banks, but this vigilance is exercised primarily to prevent banks falling into undesirable hands. A number of major American banks have substantial investments in major United Kingdom banking companies including First City National City Bank (in Grindlays Bank Ltd.) and Morgan Guaranty Trust Co. (in Morgan Grenfell and Co. Ltd.).

(c) Foreign bank access to savings deposit:

Foreign banks have the same access to savings as domestic banks do.

(d) Codes of fair competition:

All banks in London have the same freedom in soliciting for business.

2. Reserve Requirements

(a) Direct reserve requirements:

Since October, 1971 all banks (including foreign ones) have been required to keep a minimum day-by-day balance of 12-½% of their eligible liabilities in certain reserve assets.

Eligible liabilities are defined to include: all sterling deposits of an original maturity of 2 years or under from United Kingdom residents and overseas residents and all funds due to customers or third parties which are temporarily held in suspense accounts; all sterling deposits from banks in the United Kingdom, less any sterling claims on such banks; all sterling certificates of deposit issued less any holdings of such certificates; the bank's net deposit liability, in sterling to its overseas offices; and, the bank's net liability in currencies other than sterling less 60% of the net value of transit items in the bank's balance sheet.

Reserve assets comprise balances at head office or branches of the Bank of England, British Government and Northern Ireland Government Treasury bills, company tax reserve certificates, money at call with the London money market, British Government stocks and nationalized industries stocks guaranteed by H.M. Government, with 1 year or less to final maturity, local authority bills eligible for discount at the Bank of England and commercial bills eligible for discount at the Bank of England up to a maximum of 2% of total eligible liabilities.

¹ Exchange Control Act, 1947, 10 & 11 Geo. 6, c. 14.

Although the total of the bank's reserve assets must be at least 12½% of its eligible liabilities there are no restrictions on the distribution of funds between the particular categories of assets listed. The London clearing banks, however, have agreed to maintain (day-by-day) 1½% of their eligible liabilities in balances at the head office of the Bank of England, partly to ensure that there are sufficient funds to meet the ordinary day-to-day demands of the clearing system and to facilitate the smooth working of the Bank's operations in the money markets.

(b) "Special deposits:"

The Bank of England since October, 1971 will also on occasion tell the banks to place another slice of their assets in a frozen account with the Bank of England, which, however, bears interest at a rate close to the growing Treasury bill rate. These special deposits would be used to head off a possible big upsurge in bank lending at times when the banks had significant "excess reserves." The Bank of England is anxious not to use this weapon too much for fear of slipping back into direct regulation. Moreover, it only freezes a certain proportion of the bank's assets and it would not exert a cumulative pressure on bank reserve assets. It could, however, tend to push up short-term money rates as banks sought to rebuild their excess reserves.

(c) Supplementary special deposits:

The Bank of England has also asked that banks should be prepared to place with the Bank non-interest bearing special deposits in relation to the growth in each institution's interest-bearing resources on the following basis: (i) interest-bearing resources to be defined as the interest-bearing element of each institution's eligible liabilities, (ii) the growth of each institution's interest-bearing resources are to be measured from the average of the amounts outstanding on the 3 make-up days preceding each activation of this scheme, and (iii) up to 50% of the growth in each institution's interest-bearing resources on a 3 months moving average basis, over and above a rate to be specified, to be placed on non-interest bearing deposit with the Bank subject to: (a) no deposit being required to be lodged within the first 6 months of the initial activation of this scheme, (b) non-interest bearing special deposits made to be repayable in full should the growth in the institution's interest bearing resources fall back to the rate specified or in part if the amount of the excess should decline, and (c) the requirement to lodge non-interest bearing special deposits to be capable of variation or suspension at the Bank's discretion.

The scheme came into operation in December, 1973. The Bank subsequently realized that the scheme posed problems for banks that had a very small base of interest-bearing resources and as a result decided that banks should be exempt from the requirements of the scheme until their interest-bearing eligible liabilities average £3 million or more for a period of 3 months.

On February 28, 1975 the Bank of England with, the approval of the Chancellor of the Exchequer, announced the temporary suspension of the operation of the supplementary special deposits scheme. The scheme remains in being and may be reactivated by the Bank of England at any time.

(d) Liquidity ratios:

Prior to October, 1971 banks were required to maintain certain minimum ratios of cash and liquid assets to gross deposits, however, with the new reserve assets ratio scheme the system was changed and the liquidity ratios were dispensed with.

3. Priority Investments

Apart from the rules concerning reserve requirements, there are no priority investment requirements.

Until July, 1974, members of the London Discount Market Association agreed to keep 50% of their borrowed funds in specified categories of public sector debt. This created certain difficulties and the public sector lending ratio was replaced by a control which limits aggregate holdings of certain assets by each house to a maximum of 20 times its capital and reserves.¹

4. Credit Restrictions

The new monetary policy which was introduced in 1971 had as its objective the abandonment of ceilings on bank and finance house lending which would ensure that the allocation of credit would be primarily determined by its cost.

Notwithstanding the abandonment of the quantitative ceilings the authorities reserve the right to continue to provide the banks with such qualitative guidance as might be appropriate and to consider the need to limit the impact on savings banks and building societies of competition by the banks for individual's savings.

The system of reserve assets, special deposits and, when it is in operation, the supplementary deposit scheme have the combined effect of controlling credit. The supplementary deposit scheme was specifically introduced to control credit and it was designed to penalize any growth in the banks interest-bearing deposits above a specified level, by requiring them to place matching non-interest bearing deposits with the Bank of England on a progressively increasing scale. The effect is to limit their ability to lend without forcing up short term interest rates and bank lending rates.

5. Loan Restrictions

The Bank of England sends out voluntary guidance to banks with regard to the loans that they should allow. Banks and finance houses have been asked to ensure that loans are granted to provide finance and facilities for the expansion of exports, savings of imports, and for domestic industrial investment. The Bank made a request² in November, 1974 which is still in force, to maintain the existing restraint on lending to persons generally, and for purely financial transactions, and for restraint on lending to property companies.

In addition, so long as hire-purchase terms control remain in force, banks will continue to be asked that personal loans related to the purchase of goods subject to term control should be made on terms no easier than those permitted by the Department of Trade and Industry for hire-purchase contracts.

6. Interest Rate Limits

There are no formal restrictions on interest rates. The clearing banks have abandoned their collective agreements on interest rates. The banks set their own rates and they no longer have to change with

the Bank Rate but they change with their own view of the most profitable rate. The Bank of England does not see any need at the present time to seek to limit the terms offered by banks for savings deposits to protect the position of the savings banks and building societies.

7. *Exchange Controls*

Except with the permission of the Treasury, no person other than an authorized dealer is permitted in the United Kingdom; and no person resident in the United Kingdom, other than an authorized dealer, is permitted outside the United Kingdom to buy or borrow any gold or foreign currency from, or sell or lend any gold or foreign currency to, any person other than an authorized dealer.²

An authorized dealer is one who is authorized by the Treasury to act for the purposes of the act as an authorized dealer.³ Authorized banks are those which are permitted by the Treasury to deal in foreign exchange.

The exchange control in the United Kingdom is administered by the Bank of England on behalf of the Treasury. The exchange control rules apply to all banks, and United States banks are among those banks which are so authorized.

8. *Central Bank Credit*

Banks in London do not have regular direct access to the Bank of England for temporary accommodation in sterling; the Bank's lending to the banking system for the purposes of relieving temporary shortages in liquidity is conducted through the London Discount Market to whom the Bank of England makes available lender of last resort facilities.

Direct access to central bank credit is given to banks only rarely and without publicity in exceptional circumstances and at the discretion of the Bank of England which judges each case on its merits. However, the need should not arise with foreign owned banks, since they are required, if they are making significant investments in the United Kingdom banks, to accept a moral commitment to support their United Kingdom subsidiaries and affiliates. On the other hand, the Bank of England requires United Kingdom banks to accept a similar commitment to support their overseas subsidiaries.

9. *Bank Examination*

There are no statutory regulations requiring the Bank of England to examine banks, although, during the last few years, the Bank of England has intensified its supervisory involvement with other banks. All banks send the Bank of England periodic statements and if the Bank requires any additional information it will call for them. The Bank of England also has periodic discussions with representatives of senior management of banks which it consider to be more conducive to the maintenance of good banking practices than the technique used in other countries of sending in teams of inspectors to examine the books.

10. *Cartel Restrictions*

There are at present no formal cartel restrictions. When the new credit control policies were introduced the clearing banks abandoned

² *Id.* § 1(1).

³ *Id.* § 42(1).

their cartel arrangements which had provided for uniform deposit rates linked to the Bank rate and also the convention that had governed the relationship of their lending rates with the Bank rate.

11. *Evenhandedness of Regulation Overall*

With the exception of foreign banks not being permitted to avail themselves of Export Guarantee Department's medium-term credit financing facility, banking regulations policy and practice are administered to foreign banks in exactly the same way as they are to domestic banks.

VENEZUELA

An outline of the more detailed information needed follows:

1. Any deposit restrictions—re:

(a) Limits on deposits of resident nationals—domestic currency vs. foreign currencies, all banks, domestic banks vs. foreign banks.

All banks are allowed to receive deposits in foreign currency. Foreign banks cannot receive deposits from the public sector. Foreign banks cannot issue negotiable certificates of deposits.

(b) Limits on inflows of funds from abroad—all banks, foreign as opposed to domestic.

No legal restrictions.

(c) Foreign bank access to savings deposits.

Foreign banks cannot receive savings deposits of residents.

(d) Codes of fair competition—impact on foreign banks of agreements restricting solicitation of deposits of other banks.

2. Reserve requirements—all banks, foreign vs. domestic.

(a) Direct reserve requirements—all banks, foreign vs. domestic—requirement that deposits be kept with central bank or government agencies.

All banks must have a "legal reserve" of no less than 50 percent of their capital and contribute to it with 20 percent of the net profits.

(b) "Special deposits".

All banks must keep special deposits (*encajes especiales*) concerning some credits and investments as securities.

(c) Secondary reserves.

(d) Liquidity ratios.

3. Priority investments—government securities, housing, development banks, long-term loans, etc.—all banks, foreign vs. domestic.

No special priorities for commercial banks. Priorities are set for investment institutions (*sociedades de capitalización*).

4. Credit ceilings—either re domestic inflation or balance of payments.

For all banks, total amount of credits cannot exceed 15 percent of their investments (*colocaciones*).

5. Loan restrictions re classes of borrowers or uses of funds—also structural restrictions (such as prohibitions against underwriting)—all banks, foreign vs. domestic.

National banks cannot have demand or term liabilities that exceed 20 times their capital and reserves. For foreign banks, that restriction amounts to six times their capital and reserves, as a general rule.

6. Interest rate limits—all banks, foreign vs. domestic.

Same system for all banks. Central Bank determines maximum rate of interest.

7. Exchange controls—all banks, foreign vs. domestic.

Yes, all of them.

8. Central bank credit—access and cost—all banks, foreign vs. domestic. If there is nominal access, is there nevertheless discrimination?

According to law, all banks have access.

9. Bank examination—all banks, foreign vs. domestic. What is the interval and nature of examinations?

The *Superintendencia de Bancos* inspects all the banks, takes care of banks, operates according to law. At least one inspection a year.

With regard to foreign banks, specifically the *Superintendencia* must inspect the application of the limitations of stock ownership imposed on foreign banks.

10. Cartel restrictions—against particular operations? Need for cooperation? Big vs. little banks; foreign vs. domestic.

11. Evenhandedness of application of regulation overall.

The Common Regime for the Treatment of Foreign Investment in the countries of the Andean Pact, adhered to by Venezuela, provides that foreign banks presently in operation shall terminate within the next three years. However, the new Venezuelan Banking Law of May 22, 1975 seems to allow to existing foreign banks a restricted but indefinite status.

PART III
REPORT OF TRIP TO EUROPE
AUGUST 1975

REPORT ON EUROPEAN TRIP BY THE SUBCOMMITTEE ON FINANCIAL INSTITUTIONS SUPERVISION, REGU- LATION AND INSURANCE

INTRODUCTION

The following is a report on the trip which the Subcommittee on Financial Institutions Supervision, Regulation and Insurance made to Europe in August 1975. Meetings were held with central bank officials in five countries and with officers of four U.S. banks. The chronology of these meetings is as follows:

August 4: Bank of England

August 5: Bank of America, London

August 6: Morgan Guaranty Trust, Paris
Pittsburgh National Bank, Paris

August 7: Bank of France

August 8: German Bank Supervisory Authorities and Bundesbank officials

August 11: Continental Illinois, Frankfurt

August 12: Swiss Bank Commission, Swiss National Bank, and other representatives of the Swiss Government

August 14: Bank of Italy

The report which follows is a summary of these meetings compiled from notes taken by the four staff members who accompanied the Congressional delegation; William P. Dixon, Jane W. D'Arista, Ellen M. Larkin and Robert S. Feinberg

ENGLAND

August 4, 1975

U.S. Embassy London, England

The Congressional delegation received a briefing on the political situation in England by William Woesner, Chief of the Political Section. He noted that the alliance between the United Kingdom and the United States had not been better for many years and stressed the significance to the United States of England's remaining in the Common Market. England has been of assistance in assuring that the U.S. view of that market and the U.S. view of the situation in the Middle East is represented.

The Economic briefing by James E. Ammerman, Financial Attache, discussed the causes of inflation in the United Kingdom. He stated that wages in the United Kingdom were up 32% for May 1975 as contrasted with May 1974; consumer prices had risen 25% and industrial production was down 8% for the same period; and that the pound had fallen in two years from U.S. \$2.60 to the current rate of \$2.20. Mr. Ammerman stated that the wage increase ceilings were the heart

of the labor program and noted the difficulties that were involved in implementing this program. In response to a question, he provided information on the tax rate. The basic rate is 35% and rises to 85% on a \$44,000 income. There is an additional 15% tax on unearned income, such as dividends, etc.

In the area of banking, Mr. Ammerman noted that the Bank of England was nationalized in 1946, but that there is not other legislation referring either to its structure or scope of operations. All developments in terms of supervision, monetary policy, etc., had come about on an *ad hoc* basis. There are no formal ratios in regard to reserve requirements, etc., and no explicit standards of banking conduct. We also noted that the Bank of England has a very small regulatory staff, that it is very flexible and that the degree of supervision changes. There are over 300 foreign banks in London including a greater number of U.S. banks than in New York. As a result of the crisis of 1974, the Bank of England has beefed up its professional regulatory staff from 4 to 7 members, with a supporting staff of 30. It is asking for more information on domestic operations and for Eurocurrency information, which is a new development. But the Bank of England does not have control of all banks and is finding that obtaining reports of all financial institutions is difficult. Currently there are no examinations of the books of banks.

With respect to foreign bank legislation in the United States, Mr. Ammerman noted that the terms themselves had been open to question. The term "national treatment"—which apparently means that foreign banks will be permitted to do what U.S. domestic banks do—and "reciprocity"—which means that a U.S. bank in the United Kingdom can do only what a U.K. bank can do in the United States—are often used interchangeably. It is not clear precisely what people mean when they use these terms or what it is that they actually want. An "authorized bank"—a term which is frequently used in London—is one that is authorized to deal in foreign exchange under the Foreign Exchange Control Act. The requirement for authorization has permitted the Bank of England to develop control over the major banks and permits it in effect to charter foreign banking operations since authorization to deal in foreign exchange is critical to their operations.

August 4, 1975

The Bank of England

Members of the delegation met with Messrs. George Blunden, Senior Official in Charge of Bank Supervision and Regulation; John Kirbyshire, Senior Advisor to the Governor; Mr. Gill, a staff member responsible for bank supervision and regulation; Derek Byatt, Head of Foreign Exchange Activities for the Bank of England, and Mr. Thomas Bell, Chief of the North American Division of the Bank of England. Members of the Congressional delegation present were Chairman St Germain, Mrs. Boggs, Mr. Hanley, Mr. Long, Mr. Minish, Mr. Patterson, Mr. Wylie and staff.

Mr. Blunden noted that establishing branches is very easy for foreign banks; that the requirements are minimal. However, he also noted that international business requires authorization to engage in foreign exchange. This authorization is given by the Treasury upon the advice

of the Bank of England. Authorization is given quite freely in the case of established foreign banks but the Bank of England always counsels and advises United States banks prior to giving a favorable recommendation to the Treasury. The most stringent requirement imposed on foreign banks involves approval of the staff conducting foreign exchange operations. The Bank assures itself that the management of the bank and the people who will be dealing in this market meet certain professional requirements, are experienced in the London foreign exchange market and familiar with United Kingdom foreign exchange controls. It also requires the foreign applicant to make a careful review and study of costs of operating in London.

The Bank of England regards a branch of a foreign bank as part of the parent, and as such looks to the parent to determine solvency. It does not require capital or special liquidity arrangements for branches. However, it does consider the foreign banks' reputation, balance sheet, and assets. Although there is no formal minimum assets requirement, some smaller United States banks have been persuaded not to come or to open only representative offices or invest in consortium banks, primarily because of the great cost of operating in London. With regard to domestic business in the United Kingdom, requirements for liquid assets and special reserve deposits are the same as for domestic banks. Such requirements are imposed for monetary or credit policy purposes. Foreign banks are granted limited status for the first few months and approved on a more formal basis after six months. The Bank of England welcomes examinations by U.S. regulatory authorities since they recognize the status of a branch as part of the parent organization and feel that this in effect gives more security to London operations.

Retail banking in the United Kingdom is primarily in the hands of the five clearing banks. There are approximately 300 merchant banks. Mr. Blunden noted that in late 1973 and in 1974 there was a potential for major failures in the British banking system as a result of the collapse in the property market and that support operations through the clearing banks were launched by the Bank of England. There were a number of mergers and liquidations but no major failures. The Bank of England authorized the use of deposits with it by the clearing banks in meeting the crisis. In one instance, there were nearly \$1 billion in deposit runoffs. Mr. Blunden noted that, had there been more effective supervision, they might have steered the banks away from potential problem areas. He also noted that the principal difficulties were with the fringe banks over which the Bank of England had, at that time, no direct control and had made no attempt to control.

The Bank has greatly changed the system as a result of this experience. Whereas they only required an Annual Report before, they now require quarterly reports which include information on large deposits, loans and such matters as lending to directors. The Bank's staff is doing sector analyses and country analyses. Senior management is called in to justify the balance sheet on a regular basis. It is thought that sitting down and talking directly to the management gives a better idea of what is going on than examining the books. All but the five clearing banks are subject to this review as are the subsidiaries of foreign banks, but presumably not branches of foreign banks. Under the 1946 Act, the Bank of England cannot ask banks about their individual customers.

But the new report does so and no one has complained. Banks do not ignore the suggestions of the Bank of England and have complied with its requirements.

The Bank has reached agreement with the five clearing banks on an annual examination to be announced in September. (This information had not yet been announced publicly.) But it was stressed that new activities by the five clearing banks have always been discussed with Bank officials.

In a discussion of the absence of privilege for foreign banks, it was stated that the Bank of England would not be willing to extend this privilege because it might interfere with monetary policy. With regard to domestic banks, the Bank is the lender of last resort to branches, overseas as well as to the domestic system. Bank officials expressed the view that regulatory agencies of other countries should stand ready to assist a failing bank as the Federal Reserve did in the case of Franklin National Bank. The Bank of England provided the foreign exchange necessary to straighten out problems in Lloyds' branch in Locarno. Mr. Blunden characterized regulation by the Bank of England as flexible, personal, aggressive and participative.

The property boom which culminated in 1973 was punctured by government ceilings on rent increases. The Bank of England influenced banks not to foreclose so as not to increase pressures on the market. This was government policy but it was supported and implemented by the Bank. The Bank's method was persuasive. It suggested a ceiling on deposit rates on small deposits to protect the building societies. Recently, wider margins between deposit and loan rates have emerged. The lower deposit rates are intended to discourage deposits in view of the slack demand for loans. The Bank of England permits market forces to operate unless there is a crisis in the housing sector. However, the bank does exercise an influence on the Treasury bill rate and this in turn influences all other rates. (Thus, the degree to which the central bank permits the market to operate as opposed to influencing the market is somewhat debatable.)

In England, techniques other than credit controls have been used to influence domestic allocations of credit. These include guidelines on expansion of credit by banks—i.e., an amount equal to 10% over the level of last year and taxes on lenders similar to special reserve requirements but with exemptions for loans for preferred types of economic activity such as energy and housing.

The Governor of the Bank of England is appointed by the Crown under the 1946 Act. This, of course, means that he is appointed by the Prime Minister. The term of office is 5 years, but reappointment is permissible. Mr. Blunden made the point that the international banking system is interrelated and, therefore, must be supported. The question is, by whom? Support by the host country is politically impossible. U.K. foreign exchange reserves could never have been used to support the operations of a U.S. bank such as Franklin National Bank. But had Franklin not been supported, great damage would have resulted to U.S. banks. In his view, not only would there have been a loss of prestige, but also a substantial loss of business.

The proliferation of foreign branches in London did not reflect good judgment in all cases. In some cases it reflected a desire for prestige

and a recognition of the necessity that banks operate in the Eurocurrency markets. The Eurocurrency market is a European market and in order to operate in it successfully, a bank must operate within the time frame. That in turn means operating in London because of the size of the market and the time factor. It was the belief of Bank of England officials that, since 1969, the proliferation of U.S. banks abroad was due to a desire to enter Eurocurrency markets, not to enter domestic economies. In response to a question about the involvement of U.S. banks in the U.K. domestic market, Mr. Blunden said that if the sterling business of a foreign branch were to rise to a certain level, the Bank of England would impose on it the same degree of supervision as it does on the clearing banks.

A group of representatives from four of the clearing banks—Midland, Lloyds, Barclays and National Westminster—joined the discussions together with Mr. Murphy of Schroeder-Wagge. Mr. Murphy acted as spokesman for the group and made the point that he felt it was reasonable for the United States to put foreign banks under the same regulations as domestic banks, but that a grandfather provision which would at least provide gradual phaseout was necessary. He also took the position that Congress should review the Glass-Steagall Act, arguing that the troubles that have occurred in banks recently have not involved underwriting, but rather such things as property—i.e., real estate lending and investments—and foreign exchange. He expressed the opinion that Glass-Steagall Act had been enacted to meet a specific problem and was no longer relevant. As illustration, he noted that there had been no problems in securities in U.K. banks. However, he agreed that the major portion of the business of his bank was a wholesale business and that the clearing banks handle all the retail banking. Thus, the British banking system also reflects a tradition of specialization.

In response to a question, the point was made that the clearing banks do not issue mortgage loans in any great amount and never in excess of 7 years.

The meeting ended with a brief discussion of the matter of the letters of credit in the U.S. National Bank of San Diego case. The view of National Westminster Bank, one of the larger banks involved, was that it was improperly handled by the FDIC and the Comptroller of the Currency. The U.K. bankers' view is that a letter of credit is an obligation of a bank—i.e., a liability with the same standing as a deposit.

August 5, 1975

Bank of America, London

Officers of Bank of America meeting with the Congressional delegation were Messrs. Rice, Puz, Verborgh, Schafer, Yelton and others. Members of the Congressional delegation present were Chairman St Germain, Mrs. Boggs, Mr. Hanley, Mr. Wylie, Mr. Patterson, Mr. Long and staff.

By way of introduction, Mr. Rice stated that Bank of America has been established in London since 1931; that the banks' profits on international transactions were approximately 40% of total profits at year-end 1974; that they will be larger in 1975, but that the strategy of the

bank is to keep international profits under 50%. The London office is, in effect, the money market center for the bank and coordinates its foreign exchange operations around the world. Bank of America has large retail operations in Italy and Germany and has two subsidiaries engaged in factoring and finance in the United Kingdom and involved, on a small scale, in retail banking. The retail banking subsidiary in Germany has 26 branches. Consumer lending is approximately 14 to 15% of the bank's business. This division of Bank of America—the European, African and Middle East division—has 31 branches, 7 wholly owned subsidiaries, and other affiliates. In total, Bank of America has 250 offices operating in Europe, the Middle East and Africa under the jurisdiction of this division of the bank.

Providing explanations for these terms, bank officials noted that retail banking requires access to a stable deposit base and the ability to make fixed interest loans. Wholesale banking deals with companies, as opposed to consumers, and with individuals when the level of transactions is \$50 million or more. There was a discussion of the domestic sterling business of U.S. banks in general and of Bank of America in particular. Bank officials provided no specific information as to the volume of the bank's sterling business. They noted that at one point in time there was a sterling base in effect as part of monetary policy controls so that late comers without the opportunity to establish a sterling base were disadvantaged. This is no longer in effect. Officers of the bank estimated that it is probable that foreign banks have a substantial percentage of sterling loans. It was their view that opportunities for foreign underwriting are not great and that activities of U.S. banks in this area would not become a significant factor in underwriting in Europe.

Bank of America requires separate balance sheets and profit statements for each unit overseas. The policy of the Bank of America has always been to fund out of the foreign market; they do not cover deficits with domestic funds. The international division usually has a surplus of funds and in effect, there is a reverse flow of funds into San Francisco.

Under foreign exchange controls imposed by the Bank of England, much information is provided to U.K. authorities which would not be provided in the United States. The Bank of England usually contacts Bank of America informally to inquire about its activity in the money markets—i.e., its volume. They also call banks informally with regard to problems and find that they are very cooperative.

Officials of the Bank of America find the Bank of England very understanding. As illustration, they cite the Bank of England's involvement in tax issues with regard to North Sea oil profits and taxation for foreign residents. After considerable discussion with the financial community, the Bank took action to moderate the proposals of the government in order to protect London as a financial center. They expressed the view that no central bank in Europe is so knowing of market conditions and that Bank of England officials are very professional, practical, commercially-oriented, liberal and nationalistic. The Bank of America officials consider the Federal Reserve and the Bundesbank to be the most independent central banks. The Bank of England and the Bank of France are probably much weaker because of their governments' hold over them.

During a discussion of conflicts of interest, the point is made that bankers participate more in management decisions in Europe than in the United States. Banks have a larger voice in decisions where companies are major clients. Mr. Rice and others made the point that Bank of America's policy is to engage in bank related activities. They would take equity positions in loans to improve profits, but their participation would be very small. Congressman Hanley suggested that they receive the Patman Award for their policy in this respect.

A discussion of their portfolio was initiated in an attempt to find out to whom they lend. It was stated that the bank lends to major U.K. companies here (England) and overseas; that it probably lends more to U.K. companies than to the subsidiaries of U.S. companies overseas. Bank of America has more indigenous business than others. However, it was not affected by the U.K. property collapse because the bank does not become involved in domestic economies. Because it entered the field later, at the very beginning of the 60's, lending is limited primarily to multinational corporations. Its portfolio in Europe, Africa and the Middle East is approximately 60 to 70% of foreign business. However, Bank of America will not take funds from an onshore market to lend to an offshore market.

During a brief discussion of Eurodollar rates, Bank of America officials said that U.S. banks are not moving dollars out of the United States, despite an interest rate differential of $\frac{3}{4}$ of 1%. One of the reasons given for this was that they are now more cautious and wish to fund loans in a given country in that currency since there is some country risk in conversion and that there was no need to move the dollars out of the United States because there were plenty of Eurodollars available for lending. The point is made that if such a differential exists, funds are not being moved. If they were being moved, the differential would disappear; it would be arbitrated out.

In a discussion of the U.S. National Bank letters of credit, Mr. Rice agreed with Congressman Wylie's view and stated that banks have an obligation to find out to whom they are lending and not merely to be "opportunistic." He stated that a letter of credit is a loan, not a deposit, and should be viewed as subject to credit risk. Another bank officer noted that European-American Bank had aborted some participations in large international loan commitments made by Franklin. Bank of America was the lead bank in one of those credits, a loan to the Soviet Union. The risks had not changed although the rate might have appeared at that point to be less than rates on more current loans. The loan commitments had been made by Franklin and in some cases the fees had been paid. However, this was not one of the selected assets.

Examinations by the Comptroller of the Currency are of the same frequency and are made simultaneously with home office exams. Reports are submitted to the Federal Reserve from the home office and the information is gathered from reports supplied from overseas to the parent bank. The branch reports monthly its balance sheet and profit and loss. Examination in London by the Comptroller is meaningful because this is the central point for the bank's operations and all information on the bank's portfolio in the European, African and Middle East area is kept in London. It is noted that there are also spot checks made by examiners elsewhere, but that this is more often the

case with First National City Bank because of its extensive branch network.

In a discussion of the focus of control over monetary policy and the responsiveness of the Bank of England to the government, it is noted that the Bank of England did give some guidance in regard to sterling loans to direct them toward brick and mortar investment and the export industries as opposed to consumer loans and securities transactions. Bank of America officials say that they were not approached directly in this regard, but that they read the newspapers; they were aware of what the policy was and they cooperate because they wish to be very scrupulous in adhering to policies in the host country.

Foreign exchange trading is considered essential to the vitality of foreign trade. The "extent" of the market is determined both by its volume and range of activity. The vast amount of speculation in foreign exchange has been washed out of the market since 1973. As a result of floating exchange rates, the risk became too great. This wiped out almost all of the smaller banks from the market, and has made for a much more healthy market since many of these banks should not have become involved because of lack of expertise.

The risks as seen by Bank of America are twofold:

1. The open position—when a currency is bought, sold x months later and converted back into the original currency.
2. Mismatching maturities—when contracts to buy and sell are for different dates, there is great potential for exposure to interest rate differentials.

There is no necessity for a bank to deal in the foreign exchange market. No bank would lose status if it decided not to enter. Generally, whenever there is an exchange transaction there is a customer behind it.

The following is a description of how Bank of America makes a foreign exchange transaction:

First, it receives a deposit in a branch and decides what to do with the funds. There are two options:

1. The Germany branch has a need for the Deutschmarks received on deposit either as reserves or to make a loan.
2. There is a large loan to pay out in dollars. The bank buys the dollars in a spot transaction and at the same time sells the German marks at a future fixed rate.

Using this technique, the bank has reduced its risk to a credit risk and at the time of the transaction knows exactly what its profit will be. The profit is nothing more than the interest differential. But these two options limit the amount of activity the bank is willing to engage in with other banks because both describe transactions initiated by a customer.

August 6, 1975. American Embassy, Paris

An economic briefing by Mr. Schubert Dyche, Treasury Attache began with a general description of the current state of the French economy. Mr. Dyche noted that the French entered the recession more slowly than did other countries, and that they were still drifting downward. The current projection was that the recession would bot-

tom out at the end of the year. Inflation was still viewed as the principal problem but it was anticipated that unemployment, which had already affected younger people, would reach $1\frac{1}{2}$ million. Until recently, French economic policy has been viewed as more conservative than that of other industrial countries. The government has maintained a balanced budget and imposed credit ceilings. The objective of economic policy was to control inflation and improve the balance of payments. Credit policy is controlled by the Treasury. Price control programs have had little effect and have been administered without conviction.

Inflationary pressures in France were the result of the '73 boom, not of government spending. The economic growth rate has averaged approximately 5% a year for a decade. The French view the increase in world commodity prices before the oil price increase as well as an investment boom as the cause for hyper-inflation. The officially reported inflation rate was 10%. The average per capita income has risen and was \$5,700 (as compared to \$6,400 in the United States).

Labor parties do not have as great political strength in France as in the United Kingdom. Wage settlements in 1975 were viewed as moderate in a range between 13 and 15%. But a large part of the economy is nationalized and unions in the public sector may press for higher wages since they are less concerned about unemployment. The government had decided to coordinate an expansionary policy with Germany and to run a 15-20 billion franc deficit which was actually quite modest as compared to other industrialized countries. France also planned to rejoin the "snake" to float its exchange rates together with those of other EEC countries. As a result, domestic interest rates could not be permitted to drop below Eurocurrency rates and since they must have high interest rates, the government would need to rely on fiscal policy for stimulus. However, there are no special restrictions on foreign banks in France due to nationalization and the fact that French businessmen prefer to do business with French banks. There is little profit for U.S. banks in the domestic market. Wells Fargo recently established a relatively small French investment bank which may reflect a new trend in terms of American banking operations in France. There is very little French corporate borrowing in the international market and only two large French corporations have become involved in multinational operations.

FRANCE

August 6, 1975

Morgan Guaranty Trust Co., Paris

Officers of the bank who were present were Paul Caron, Jean-Louis Masurel, Jorgen Wagner, Marcel Malfant and Jean-Paul Glenisson. Members of the Congressional delegation present were Chairman St Germain, Mr. Hanley, Mr. Long, Mr. Patterson, Mrs. Boggs, and Mr. Wylie.

J. P. Morgan Company established operations in Paris in 1868. Thus, Morgan is the oldest foreign bank and the largest in Paris, with the exception of the larger, but not older, U.S.S.R. bank, Moscow Narodny. Its balance sheet is between \$1 $\frac{1}{2}$ and \$2 billion. The Paris

office is responsible for all operations in France and for operations outside France involving subsidiaries of French parent subsidiaries. Morgan, unlike other banks, requires that each office report directly to the parent. Thus, it has no one center for foreign exchange in Europe. London is its largest European office and Paris is the second.

Paul Caron, the Credit Manager, explained that the bank is primarily a corporate bank engaged in international business. Many of its clients are the older U.S. multinational corporations which have been overseas 60 to 70 years. New business comes from English, Dutch and other European companies established in France recently. The bank has attracted these new customers because of its reputation for advisory services in this area. Some of its new clients are also French companies establishing multinational operations for the first time. The bank does a substantial amount of foreign exchange business. Its credit judgments apply equally to loans and to foreign exchange. Summarizing how the foreign branch views itself, it was stated: ". . . primarily as a corporate financing bank with secondary international interests, attempting to increase the amount of business from foreign companies." Slightly more than 50% of its loans are to French subsidiaries of U.S. companies. The rest are to French corporations and the French subsidiaries of other nationals. Fifty-one percent of the profits of Morgan Guaranty, the parent, are attributable to non-U.S. operations.

Legal counsel to Morgan gave the opinion that offices in France should not disclose their business to Federal Reserve examiners; that they should make disclosures to no authorities other than French authorities under the French penal code which prohibits the disclosure of such information. As a result, the branch no longer provides reports to the Federal Reserve although the Fed sees these reports through the parent. Morgan permitted federal examiners in their offices before because they did not know that it was against the law. They do, however, supply all information to the head office. The Federal Reserve has not attempted to clarify the situation with French authorities and has not looked at the bank's operations in France for over 2½ years.

In response to questions, Shubert Dyche, the Treasury attache, said that the Comptroller and the Fed still examine all other U.S. branches operating in Paris and that this is an interpretation given by Morgan's counsel. Morgan personnel agreed that other banks have received different opinions and are still examined by the Fed, or the Comptroller.

Morgan personnel described their reports to French authorities as formal and detailed. Reports to the Federal Reserve are more analytic. They are aware of the difference because they used to fill out such reports and because they have been in the New York office and know what is reported there on the operations of the branch. In any event, the amount of reporting is substantial both ways. The Bank of France looks into the credit worthiness of borrowers. It makes examinations every 18 months to two years. The branch provides different kinds of reports to the home office than to the Bank of France. To the Bank of France they provide a statement of monthly accounts, the nature of both borrowers and depositors, and industry groups. To the home office they supply information on a monthly basis on all credit extended

and on the balance sheet and profits. Home office guidelines require that more details be given as the size of loans increases. Definitions differ between the American and French authorities. The French regard two years as a medium term loan, whereas one year is regarded as medium term in the United States.

The Bank of France does not tell banks where to lend and makes no direct suggestions. But there is an understanding as to rules. The Bank's liquidity ratios is a rule which is respected. There are no reserve requirements for foreign currency deposits—only for domestic deposits—but foreign exchange regulations sometimes preclude banks from funding in the international market. Quantitative ceilings on extensions of credit is the principal means of implementing monetary policy. The large, nationalized banks exceeded these ceilings and were penalized both in terms of fines and in other ways as the recent celebrated case of the firing of the president of one of the large nationalized banks illustrates.

Officials of the bank provided an overview of the French financial system including the fact that in France, savings institutions cannot lend commercially. They lend to the government and the funds are allocated to various agencies. Commercial banks lend to housing with state supplements. Almost all loans are variable rate loans. There is no payment of interest on demand deposits. Thirty days is the minimum for payment of interests. Morgan Guaranty has a good demand deposit base in France because it has been there longer. The large nationalized banks have most of demand deposits. Each has 2,400 branches throughout France. Morgan officials note that the money market in France is more controlled by the Bank of France than is the U.S. money market by the Federal Reserve. Reserve requirements apply to all banks and are non-interest bearing.

The point was also made that there is an indexing of salaries in France, which provides an automatic increase guaranteed to give an increase in excess of the rate of inflation.

For credits over \$5 million Morgan Guaranty's Paris branch keeps duplicates of its credit files in New York. It has no involvement in retail banking, although there is a portfolio of private customers, all of whom are of substantial size and all of whom are retained for traditional reasons, related to the length of establishment of the bank and the fact that they have been customers for many years.

Morgan subsidiaries. Morgan & Co. S.A. is 70% controlled by the parent. It does some commercial banking, but principally functions as a holding company for Morgan & Cie International. Morgan Guaranty Trust Co. holds one-third of this banque d'affaires which is engaged in underwriting. The rest is held by Morgan Stanley. The bank retained its interest in this company after it divested its U.S. underwriting business to Morgan Stanley as required by the 1933 Glass-Steagall Act. The Federal Reserve permitted the bank to retain an interest but required that it be reduced to a one-third holding and that while the bank does receive profits, it apparently has no voice in management.

In a discussion of syndicated loans, it was explained that in France there is usually a pool of four or five banks which loan to a company. Each bank negotiates its own rate. U.S. banks have been rather aggressive with regard to pricing.

Outlining the branch's sources of funds, Morgan officials stated that one-third of its deposits are denominated in Francs and two-thirds in foreign currency. Forty percent of the Franc deposits are obtained in the money market. Eighty percent of the Eurocurrency deposits come from the money market and 20% from customers.

Morgan's joint investments involve minority holdings in local banks. This is where they are involved with the large French banks, German banks, etc. Most of these are holdings in banks in the Ivory Coast, Australia, etc. The joint investments provide no assistance in gaining deposits. All Eurocurrency syndications are funded out of the Euro-dollar market. In response to a question about whether or not joint investments tend to establish cartels and whether banks draw on one another's resources to fund large Eurodollar syndicated credits, the reply was: No; that on the contrary they would find such relationships harmful and rather than depend on one or two banks there is a need to cultivate a wide relationship with banks in order to be certain that one's needs are covered.

A discussion of foreign exchange operations elicited the following definitions: In a foreign exchange transaction the bank buys and sells currencies. In Eurocurrency treasury transactions, the bank borrows and lends currencies. The bank knows its general level of need in a given currency and a maximum "position" for each currency, and will offer a lower rate for deposits in excess of need.

August 6, 1975

Pittsburgh National Bank, Paris

Present were an official of the bank, Chairman St Germain, Mrs. Boggs, Mr. Hanley, Mr. Long, Mr. Patterson, Mr. Wylie and staff members.

Pittsburgh National Bank established a representative office in Paris in 1962. The branch operation was initiated December 2, 1974, implementing a decision taken in January of 1974. Eleven months were required to open branch operations, even though the personnel, physical and other facilities were all in place. Its capital is \$187 million. The parent bank ranks 47th in the United States in deposits. The holding company is capitalized at \$207 million.

Pittsburgh National Bank's major customers include U.S. Steel, Alcoa, Pittsburgh Plate Glass and Westinghouse. The bank could not supply services to these corporations without international operations. Management chose to locate international operations in Paris because the bank was already well served by British correspondents. The Paris representative office was used primarily for informational purposes and had not developed much business. In 1969 the bank decided to become more aggressive. Currently it has a \$200 million foreign portfolio and approximately \$300 million in international operations. It also had a branch in the Bahamas and a foreign exchange trader in Pittsburgh, booking business into the Bahamas branch and tapping the New York and London money markets. Time became a factor in the bank's international operations since its trader in Pittsburgh came into the market just as the London market closed. Therefore, it needed an operation in Europe in order to operate in both the New York and London markets. In addition, management wishes to develop new business for customers who were heavily involved in international op-

erations and for the bank. They have also been active in encouraging foreign companies to invest in the United States, especially in the Pittsburgh area.

Another reason for choosing Paris as a location for operations was that there are too many foreign banks in London and it has become very expensive. Luxembourg is the least expensive place to locate but there is no local market and no trading in local currency. Brussels is regarded as a good center for international business but the Belgians prefer foreign banks to operate through subsidiaries and affiliates rather than branches.

The Bank of France encouraged Pittsburgh National to open its branch. However, there were difficulties with regulations such as liquidity ratios, capital, reports and examinations. Foreign exchange regulations also presented some difficulty. In its efforts to defend the franc, the Bank of France monitors currency outflows closely to assure that francs are exported only in for approved commercial or financial transactions.

The Bank of France establishes ratios for credit increments as a means of implementing monetary policy. Guidelines limiting increases in lending over previous years are hard on newcomers and the Bank of France has permitted newcomers to establish quotas in relation to capital. The minimum capital is \$5 million and since the U.S. parent bank decided to provide only the minimum, the branch finds it difficult to service its customers. Another U.S. bank which also established a branch recently, brought in more capital and obtained a higher credit ceiling. It was noted that the ceilings also apply to new French banks. The restriction is imposed to limit inflation and, therefore, the bank hopes that it will be removed within a reasonable time. However, if it is not, the parent bank may have to increase the capital of the branch.

Management has decided that the bank will only engage in foreign exchange trading for the purpose of serving customers. The policy is wise and minimizes risk, but it has some drawbacks. If the trader is not in the market constantly, it is known that he is not making a market in foreign currencies and that when he does come into the market it is because he has a need. The bank is not offered the best rate and the job of the trader is to minimize this disadvantage.

Loans in dollars to French residents must be authorized since the dollars must be converted into francs but the Bank of France imposes no limit on external borrowing or lending. The branch accepts deposits in France only to a limited degree. Given the limits on lending, there would be little purpose to it. The branch has no retail operations and does not plan to undertake any in the future. Staffing for retail operations is one factor and another is the need for cooperation from French regulatory authorities. One needs that in any event, and it is helpful when a French bank has a branch in the United States and receives cooperation. When Pittsburgh National applied to establish a branch, the bank's officers were asked by French authorities about reciprocal arrangements for French banks in Pennsylvania. They were very embarrassed because limitations on branching under state law prohibit foreign bank entry. They were told there would be problems if laws were passed which hampered the operations of French banks in the United States.

Branches of foreign banks are permitted to engage in the same range of activities as French banks, and even have some advantages over French banks. Only a few French banks are authorized to deal in foreign exchange; Pittsburgh National Bank is particularly fortunate in having an authorization. Moreover, U.S. branches have access to dollars at a good rate and to excellent bank loans. Among their assets is their unique ability to provide sophisticated managerial advice. This is where the bank's management thinks the bank *can* compete with indigenous banks and make profits and this is where they feel they should concentrate their operations.

August 7, 1975, The Bank of France, Paris

Present were Gabriel le Fort, Director General of the Bank, and Mr. Fanat, Department of Bank Supervision; Mr. Medaeno, Department of Bank Regulation; Mr. Aubanel from the Foreign Department, Mr. Breton and Mr. Brunel, Department of Foreign Exchange Regulation. Members of the Congressional delegation present were Chairman St Germain, Congressman Hanley, Congressman Wylie, Congressman Long and staff.

Mr. Medaeno opened the discussion with a presentation describing the regulatory climate affecting foreign banks in France. The laws of 1941 and 1946 provide for equal treatment for French and Foreign banks and authorization is given in terms of the type of banking chosen. Foreign banks can establish branches but branches cannot take the form of a variable corporation. Minimum capital, or an advance from the home office is required for branches as well as subsidiaries. Banks which accept deposits or do medium or long term lending require 2 to 5 million francs in capital. A banque d'affaires requires 10 million francs in capital. These figures are reduced by half if the bank has less than three offices in France, but are doubled if the balance sheet total is more than 300 million francs.

Legally, only French and European Economic Community nationals can exercise the banking profession in France, but this restriction is liberally administered. Even the director of a foreign bank is not required to be a French national. Applications are examined in terms of the economic needs of the area in which the bank wishes to establish operations. Foreign banks can undertake operations on the same basis as French banks in the same category. Medium and long-term credit banks cannot accept deposits for less than two years. Deposit banks and savings banks cannot have equity participations in companies in excess of 20% of the company's stock; i.e., they cannot own more than 20% of a company in which they have an equity investment. Since 1967, opening a new office does not require approval by the Bank of France.

Foreign banks are subject to the same constraints as domestic banks with respect to monetary policy. Presently the key element of this policy is reserve obligations. In addition, there is the credit limitation—the rule of 112% limiting the amount of additional credit that can be extended. There are no reserve requirements on nonresident deposits or loans made in a foreign currency.

There are 85 foreign banks in France, 23 of which are American. Of the U.S. banks, 14 are branches and 9 are incorporated as subsidiaries. Eighteen of the 23 are banks of deposit; four are merchant banks

and one is a medium and long-term bank. United States banks have approximately 40% of the total assets of all foreign banks and 5% of the total assets of all banks in France; 11½% of total public deposits and 3.2% of all loans to the economy. Four U.S. banks have more than one location in France and these four have 19 offices. There are 20 other financial institutions which are also U.S. owned dealing in property and leasing, underwriting, etc., some of which also have participations in credit institutions. In addition, there are eight representative offices of U.S. banks.

Mr. Fanat from the Department of Bank Supervision stressed the equality of treatment enjoyed by U.S. banks: Subsidiary banks are, in effect, French banks. But branch banks are treated as banks, not as branches; i.e., not as French bank branches are treated. A foreign bank is treated as a separate entity and subject to full bank control measures. This is considered necessary in order to exercise the proper degree of control over the branch. The French authorities take the view that either they must exercise control over the U.S. bank branch in France or abdicate authority and leave it to the U.S. supervisory authority. But if control is left to the home country, foreign banks might have advantages which French banks do not have and this is not considered desirable.

Officials of the Bank of France expressed the view that control of foreign branches is needed to implement domestic monetary and credit policy. If they were exempt, the branches could act to contradict French monetary policy. For this reason, the branches are subject to the same conditions and controls as are French banks, and therefore, to more control than are the *branches* of French banks. This is why they are required to hold capital reserves while a branch of a French bank in France has no capital requirements separate from those of its parent. Mr. Fanat also argued that while the branch might adapt its operations to the monetary policy of the French government, the parent bank as a whole might follow other policies which would be contrary to that of the Bank of France.

French authorities also realize that activities of foreign branches may be different from those of French banks. Some foreign branches concentrate entirely in the Eurodollar market and it is acknowledged that the regulations of the Bank of France may be badly adapted to the differences and specialities of foreign banks. Therefore, despite their preference for looking at the branches as though the parent banks do not exist, officials of the Bank of France are finding it increasingly necessary to look at the parent network as a whole.

Some examples of this shift in policy were given in the following discussion. It was noted that the Bank Control Committee has been more generous to foreign banks with regard to liquidity ratios but are in the process of requiring the home office to make certain that foreign exchange is available to cover any credits given by the branch. Thus, foreign branches have come to be treated by French authorities more as branches than as separate entities. Another exception to the previous policy was the decision to permit foreign authorities to come and examine both branches and subsidiaries of foreign banks. (French authorities do not have the right under French law to examine French banks overseas; they examine the parent in France.) The need to regard all offices of a bank as a whole is also reflected in the policy with

regard to capital. Capital is not required for each branch, but rather for the total branch network in France.

Banks provide information on depositors and borrowers necessary to verify reserve requirements for French authorities. Reserves on demand deposits are 11%, and reserves against assets are required only if assets have increased more than 112% over the level of the previous year. However, most of the loans and deposits of U.S. banks are not subject to reserve requirements because they involve foreign currencies. Credit control policies are implemented by making exceptions in credit ceilings for certain sectors such as exports, public housing and energy related industries. Banks can lend to these sectors in excess of the 112% ceiling.

With regard to the information required of banks, French authorities are most interested in the term of borrowing. They also require information on the business of borrowes in order to assist them in formulating monetary and credit control policies. The credit ceilings have been in effect since 1973. Officials of the Bank of France took the view that it is difficult to evaluate their effectiveness or to determine what might have been the case had they not been in effect. The credit ceilings were inaugurated as a result of a decision of the Credit Council, which consists of members of the Department of Finance and the Bank of France. The fact that French banks have protested vehemently against this policy indicates that it is, in fact, effective.

In response to a question on bank taxation, officials of the Bank of France said that banks pay the same tax on profits as other companies. However, there is a special tax on financial activities which takes the place of the value added tax applicable to all other businesses. The financial tax is 15%; the value added tax is larger. The reason for the replacement is, obviously, that banks do not produce products.

Mr. La Fort said that U.S. banks establish branches in France to participate in the Eurodollar market. Mr. Aubanel noted that U.S. banks are very specialized; that one U.S. bank's activities are exclusively in the foreign exchange forward market. Mr. Brunel explained that the establishment of a subsidiary or branch is considered a direct investment in France, and subject to control. Once established, the foreign bank is free to borrow and lend in foreign currencies and to convert foreign currencies for local purposes. It can lend to French residents in foreign exchange if the borrower has permission to borrow foreign exchange, but it can buy foreign exchange in France only for recognized purposes, such as export or import transactions, etc.

Mr. La Fort said that the Bank of France has written letters of warning to banks cautioning them on their foreign exchange operations. As a result of timely warnings and expression of concern by the central bank, banks in France have not had problems and do not have problems in this area. Foreign banks are required to supply the same information on foreign exchange operations as do French banks with the same frequency. French authorities require monthly reports on foreign exchange. Some U.S. banks have complained that the number of reports and the difference in reporting requirements of U.S. and French authorities create undue burdens. The French require that foreign exchange contracts be reported as of the date on which they are made while U.S. authorities require reports using the value date

of contracts which is two days later. Thus, U.S. banks are required to make duplicate reports to the different authorities.

GERMANY

August 8, 1975 Bundesaufsichtsamt fuer das Kreditwesen, Berlin

Present at this meeting were Dr. Duerre, President, Frau Dr. Baehre and Herr Mayer, officials of the German Bank Supervisory Authority (Bundesaufsichtsamt fuer das Kreditwesen), Dr. Weber from the finance ministry and Mr. Fitzereiter from the Bundesbank. Members of the Congressional delegation present were Chairman St Germain, Congressman Hanley, Congressman Long, Congressman Wylie and staff. Dr. Weber opened the meeting with an explanation of the proposed deposit insurance fund. As a result of the failure of the Herstatt Bank, discussions were undertaken between bank supervisory authorities and the various banking associations to work out arrangements to protect depositors in the event of failure. It was decided that legislation would not be introduced in this area; that deposit insurance would be handled on a voluntary rather than a legal basis, as a private undertaking by the banks. The public savings banks have in effect a guarantee already by virtue of their public ownership. Private bank insurance will be 0.03% per million Deutschmarks of total deposits, paid annually into the fund. If a default exhausts the fund, then the premium will be doubled. If more is needed, the banks have guaranteed the deposits of any institution which fails and will pay up to 30% of its total equity capital. Presumably the guarantee will be critical only in the early years before there is an accumulation in the fund. For all practical purposes, guaranteeing deposits up to 30% of total equity will cover all deposits since there is a minimum capital requirement of \$1 million Deutschmarks and the minimum account covered would be \$300,000 Deutschmarks. Foreign banks which have already established operations in Germany have been requested to join. While their participation in the fund is on a voluntary basis, there are indications that new foreign bank applicants may find that deposit insurance is a requirement for approval.

There was an exchange of notes in 1971 and 1972 relating to examinations by U.S. and German examiners. Both countries confirmed the mutuality of the arrangement which provides that German authorities will examine German branches in the United States, and that the United States will notify German authorities of all examinations of U.S. branches in Germany. The agreement extends only to branches, not to subsidiaries and precludes examinations by German authorities of subsidiaries of their banks in the United States. There have been regular examinations by U.S. authorities who have been requested to report any specific problems. So far there have been none. German authorities have not yet conducted examinations in the United States since currently there are only six branches of German banks located there and the level of operations is not considered significant.

Reserve requirements are imposed by the Bundesbank and minimum reserves are held as non-interest bearing deposits with the central bank. The discount window is open to all banks but the amount of accommodation is decided on a bank-by-bank basis. The banks are prohibited from paying interest on deposits of foreigners. This reflects current objectives of monetary policy in dealing with the balance of

payments. Reserves are assessed on total Deutchemark deposits within Germany. There are no reserves on Eurodollar deposits. Until 1967 there was a minimum rate on deposits and a maximum rate on loans, the purpose of which was to safeguard the profitability of banks. Currently rates are set competitively.

Dr. Baehre noted that floating exchange rates have made foreign exchange regulation necessary. After the Herstatt Bank failed, the bank supervisory authorities decided to limit forward transactions in foreign exchange. They have limited the size of open positions to 30% of equity capital and require that open positions be recorded monthly. They are also advising the banks concerning the introduction of internal controls and checks on foreign exchange transactions. They will hold discussions with banks concerning their transactions at least once a year. Auditors also are required to take special note of foreign exchange transactions.

The recording of open positions in foreign currencies reflects a significant addition to information provided by banks in Germany. No information on loans by sector is requested though reports on individual loans are required when the size of the loan exceeds a given amount in relation to capital.

Monetary policy is set by the central bank, without direct input by the Treasury. The law says that the Minister of Economics and the Minister of Finance can be present at all meetings of the central bank, and may vote to defer a Bundesbank proposal for 14 days. But if that proposal is reintroduced after 14 days, the government has no power to prevent its implementation. Thus, in effect the Bundesbank has complete autonomy and Dr. Weber notes, was modeled after the Federal Reserve in that respect.

The Bundesbank has a board of directors composed of a group of state officers appointed by the Federal government with the advice, in effect, of the central bank itself. They hold office from 5 to 8 years. The term of office of Bundesaufsichtsamt fuer das Kreditwesen (Bank Supervisory Authority) officials is normally eight years. The central bank can oppose new nominees to its board, but has no veto over these appointments. These two institutions have separate powers. The Bundesbank is responsible for monetary policy and all banks must obey its policies. But supervision of the banks is by the supervisory office, of which Dr. Duerre is president, and is part of the government rather than the central bank.

Mr. Fitzenreiter served as spokesman for the Bundesaufsichtsamt fuer das Kreditwesen, in a discussion of the Rees proposal to regulate foreign banking in the United States. He expressed concern about the effects of the proposal. In particular, he made the statement that provisions in the Rees bill would worsen the position of German banks in the United States as compared with those in the Federal Reserve bill. The key issues are the requirement for Federal Reserve membership, and the prohibitions against underwriting of securities and continuing interstate banking operations. Mr. Fitzenreiter said that the involvement of German banks in the securities business is very limited in terms of the overall volume of activity in the U.S. securities industry, but that the requirement for divestiture would be a loss for individual banks.

The German banking authorities do not consider reciprocity to mean mutuality of national treatment. Their view is that reciprocity would

permit German banks to do in the United States what they can do in Germany, since U.S. banks are permitted to do in Germany what German banks do. However, Mr. Fitzenreiter agreed that complete reciprocity can never be achieved.

Members of the Congressional delegation asked how extensive was the participation by German banks in non-bank activities in the United States. The German banking authorities replied that participation in nonbanking activities was not great, not more than 25%, but that coverage by the Bank Holding Company Act would expose them to supervision by U.S. authorities and permit outsiders to view private transactions of German banks. The non-banking activities of German banks currently are limited to the securities business, but German authorities are concerned about the overall implications of the Bank Holding Company Act. Dr. Fitzenreiter said that they did not understand what the full effects might be as applied to German bank operations. The American Treasury attache, Mr. Hermberg, explained later that since German banks have substantial equity holdings in German industry and since German industry is active in the United States through investments in manufacturing operations, dealerships, etc., there is confusion as to whether or not German banks would be prohibited from engaging in banking in the United States because of these affiliations.

In response to a question about unemployment, Dr. Weber replied that the current rate is 5.5% and the normal rate is 1%. He made the point, however, that these rates were not comparable to U.S. rates. They include only those who have reported, requested unemployment insurance, etc. Dr. Weber explained that German authorities are skeptical of wage and price controls and had not used them to control inflation. He also explained that cyclical changes in housing starts in Germany are not the result of lack of funds since the government channels funds to lenders at lower interest rates.

There are no reserve requirements on Eurodollar deposits. This fact is of great concern to the German authorities. Dr. Weber feels that if there were reserve requirements on these deposits, it would greatly assist in controlling flows of funds and lessen the impact of the Eurodollar market on domestic policy, particularly during periods of tight money. Germany is very interested in utilizing this tool. However, he notes that the United Kingdom and Luxembourg oppose it, and so far have blocked efforts to implement such a program or even make tentative proposals. He indicated it would be useless to implement such proposals unless it were a concerted effort. Otherwise, the banks would transfer operations to areas (such as the Bahamas, Cayman Islands, etc.) where there is no regulation.

As a result of the prohibition against payment of interest on non-resident deposits, foreign banks rely increasingly on the domestic inter-bank market for funds. Loans by foreign banks to German residents have greatly increased. American banks in the past did not wish to compete with German banks for loans, but the pressure of competition has forced a change. Installment credit activities by the Bank of America and Chase's recent entry into the retail banking field are indications of new developments. This development has not been hindered by the banking authorities. One U.S. bank engaged in installment financing had paid a higher rate on deposits and also charged higher interest rates on loans than was consistent with Bundesbank

policy. However, the central bank had not indicated to the bank that it viewed these developments with displeasure.

The session ended with some further discussion and clarification of issues raised in the draft bill proposed by Congressman Rees to regulate foreign banking in the United States.

August 11, 1975, Continental Illinois Bank and Trust Co., Frankfurt, Germany

Present were Mr. Thomas Downen, Jr., Chief of European Operations, Mr. George Conrad, Manager of the branch in Frankfurt, Mr. Maurice M. Jacques, Vice President, Head of Foreign Exchange Operation in London, and other bank personnel. Members of the Congressional delegation present were Chairman St Germain, Congressman Long, Congressman Hanley, Congressman Wylie and staff. Also present was Mr. Edzard Hermberg, U.S. Treasury attache in Bonn.

A description of Continental Illinois' European operations initiated the discussion. The bank has two branches in London and a representative office in Edinburgh; branches in Amsterdam and Rotterdam; a subsidiary with 13 branches in Belgium; a branch in Paris; branches in Frankfurt and Munich and a representative office in Dusseldorf; a branch in Milan and a representative office in Rome; a Zurich subsidiary and a representative office in Geneva; a representative office in Spain; a subsidiary in Vienna and three branches in Greece.

The bank began overseas operations in London in 1962. The bulk of their expansion into other countries occurred principally in 1967 and 1969. The most recent additions to the European network were the Thessalonica branch and the Rome representative office. The first choice of the bank would be to establish a branch. Subsidiaries reflect the choice of the regulator except in Belgium where the bank had the opportunity to pick up a very attractive subsidiary which was ongoing and had operations throughout the country. In Switzerland and Austria, however, there was no choice. The bank formerly had a branch in Zurich but were requested to convert to a subsidiary in view of the Swiss concept of reciprocity which extends looking to the state in which the parent is domiciled. At the time, branches of foreign banks were prohibited in Illinois.

Mr. Hermberg noted that American banks in Germany tend to be money market banks which receive German deposits but in smaller amounts than German banks. As Mr. Jacques agreed, the U.S. banks are money market banks because of costs. They cannot pay interest on external deposits.¹ Therefore, the cost of commercial deposits is higher than for interbank deposits so that the domestic, German inter-

¹ In a previous meeting with staff members, Mr. Hermberg had responded to questions on the effect of the prohibition against payment of interest on nonresident deposits by nothing that in fact this had been a great hardship for the U.S. banks; that it virtually reduced their balance sheets to zero and that they had then gone heavily into the domestic German interbank market to replace their Eurocurrency business. American banks hope that the German authorities will lift the restriction in time. In the meantime, their German branches are used to refer business to London branches. They have developed only a limited amount of activity in the interbank market in Germany.

American banks have pioneered retail banking in Germany. Bank of America, First National City and Chase Manhattan Bank all established subsidiaries engaged in consumer credit operations. Mr. Hermberg said that German authorities were concerned about the impact these operations would have on the German economy and on interest rates since the U.S. banks were charging higher rates on consumer loans and also paying higher rates on deposits, and since a number of German banks have also been attracted into this area. But, despite misgivings, German authorities did nothing to curtail these operations.

bank market is a cheaper source of funds. At the moment, funds are plentiful in the interbank market. U.S. multinational subsidiaries deposit funds in German banks which funnel them on to U.S. banks. The German banks can afford to pay the higher rate on commercial deposits, because their other deposits, which are lower in cost, make up the overall difference. There are no reserve requirements on interbank deposits in Germany because it is considered that reserves are kept on the original deposit. Very few foreign firms keep Deutsche-marks in Germany. Banking is on an overdraft basis and there are no compensating balances. Besides, U.S. multinational corporations tend to be borrowers. They are thinly capitalized and generate few deposits.

Mr. Hermbers explained differences in consumer lending in Germany and the United States. Germans are encouraged to save for consumer purchases; U.S. banks encourage buying on credit. Mr. Conrad noted that the current effective rate on consumer loans is $12\frac{1}{2}\%$ but that it has come down dramatically in the last four months. German banks are swimming in liquidity and are pushing also for consumer finance loans. About eight or nine months ago the rate was $18\frac{1}{2}$ to 19% . The deposit rate is now 4% . Rates on home mortgages are $9\frac{1}{2}\%$. Certificates of deposit are not as widespread as in the United States.

Mr. Downen commented that the philosophy of the bank is to accept the rules of the game and to play by local rules. He thinks that when banks choose to go into a country, they should follow its banking rules and that this should be true in the United States as well. The concern of Continental Illinois is that banks not be discriminated against, either as individuals or as the banks of a given country. Mr. Downen commented that foreign banks do have an advantage in their operations in the United States over domestic banks.

The Comptroller has examined the Frankfurt branch three times in seven years. Banks are required by German authorities to report large credits in excess of 15% of capital but not required to report loans by sector. Sector analysis is obtained by the Bundesbank from the examiner in his annual audit. The auditors are private, are chosen by the bank, and accepted or rejected by authorities. This is also true in Switzerland. The reports are not made public but the branch does send copies to the home office.

In Switzerland copies of the exams are made available to the Board of Directors. Downen and other Continental Illinois officers are directors of the Swiss subsidiaries, so they are aware of its condition. The majority of directors, however, are Swiss. The Swiss subsidiary is primarily involved in commercial banking, but it does have an investment department which is similar to a trust department. It gives investment advice for clients but does not invest in securities. Under Swiss law, it could both invest in securities and underwrite, but does not as a matter of policy. The Swiss subsidiary is owned by the Edge Act Corporation subsidiary, which is 100% owned by the parent bank.²

² It should be noted here that information in the outline of Swiss banking law provided by the Treasury indicates that the bankers association of Switzerland has put substantial pressure on American banks not to engage in underwriting.

Continental Illinois executes most of its foreign exchange transactions in London, Frankfurt, Brussels, Amsterdam, Paris and also in New York. Bank officials said that a substantial volume of transactions is handled in cities other than London. The bank has inhouse rules that are as strict as the ones put forward by German authorities, and bank officials said they have never had foreign exchange losses—at least not in their European operations. It was noted, however, that they did lose money through their English merchant banking subsidiary because of investments in English properties.

In response to a question by Congressman Hanley, bank officers stated that 17 to 18 percent of their profits are derived overseas.³ In 1974 approximately 25% of total assets were held overseas. Therefore, profits on overseas assets were in fact lower. The bank attributes this to the cost of starting up new operations and the fact that they are fairly recent in the market. They feel that in time they will make substantial profits.

In a discussion of Glass-Steagall, one Continental Illinois officer commented that the ways in which foreign banks operate in the U.S. are important to them since they are accustomed to operating differently. U.S. banks are accustomed to practices and restrictions which apply in the United States and it is not a hardship for them. Foreign banks see disclosure, the red tape of obtaining approval in various areas and anti-trust restrictions as problems with regard to their U.S. operations.

Continental Illinois is primarily involved in wholesale banking in Europe, except in Greece where they are substantially involved in retail banking. Most of their retail banking in other European countries is very modest and related to services to expatriate executives.

Congressman Long asked what factors were involved in the bank's decision to move into the international market so quickly. Mr. Downen replied that the limited ability to expand operations in Illinois and the unwillingness to see export business go to New York were decisive factors. The bank followed the multinational corporations that it serviced in Illinois. It has tended to concentrate overseas on the large corporate customer—not just U.S. customers, however, but increasingly foreign based multinational corporations as well. The acquisition of a subsidiary in Belgium was due to U.S. and other foreign investment there in considerable amounts.

In a discussion of regulation by German authorities, it was noted that it is necessary only to notify authorities in Berlin when opening an additional branch. Continental Illinois was invited to participate in the insurance system being set up by German banks. The invitation was put very strongly, but at this point the bank does not feel that the insurance is appropriate. It is based on balance sheet totals and not focused on what the bank believes to be the appropriate deposits. Since the branches of U.S. banks are so involved in the interbank market and the amount of their commercial deposits is so small, it would be in their view discriminatory to pay insurance based on total liabilities. German banks, they note, have a larger amount of actual commercial deposits. These are the balances which Continental Illinois officers think should be insured.

³ Congressman Hanley also asked the amount of capital for their total European operations and was told that they will supply it.

Its officers think the bank competes as effectively in international markets as do large banks despite the greater length of time that large banks have been involved in international operations, and despite the size factor. In response to another question, they commented that it is indeed their impression that many banks have come overseas for prestige reasons.

When managing syndicated loans, Continental Illinois supplies information to participants concerning the credit worthiness of the loan. Smaller banks do send representatives around to survey the situation in general—people who are generally familiar with business conditions in Europe—but bank officers know of no investigations of specific loans being made by smaller participant banks. There have been no cases in which Continental Illinois was the lead bank in a loan in which other participants had dropped out and left the managers with commitments in excess of their legal lending limits.

The Belgian subsidiary of Continental Illinois participates in syndicates for Eurobonds and local corporate issues. Since it was an ongoing operation, it simply continued to perform these services. Mr. Downen indicates that he would like to have the opportunity to underwrite in the United States. He also indicated that as a matter of policy the bank's subsidiary does not underwrite in Switzerland because the bank is not familiar with this area. However, bank officials think they could learn and Mr. Downen notes that they had to learn how to conduct foreign exchange operations. This, however, is merely his own view. The bank has taken the position publicly that it would like to get involved in revenue bonds and would like the law changed.

During a discussion of the effects of German monetary policy on the branches of U.S. banks, officers of Continental Illinois acknowledged that there are constraints which affect U.S. banks more than German banks because of the nature of their operations, but that there are some private German banks which are equally affected. Only the large German banks are relatively unaffected by the prohibition against payment of interest on non-resident deposits.

Mr. Downen says that Continental Illinois takes the view that it can benefit from foreign banks in the United States. His view is that they add to the total package of banking activity and enlarge the pie. Foreign banks bring specialized knowledge, they generate new business and bring business with them. The attitude of indigenous banks toward foreign bank activities is important. In Germany the indigenous banks can make their views known, concerning foreign bank applications, because they are so close to the regulatory authorities.

Mr. Jacques said in a response that he doubted that the Eurodollar market has frustrated the domestic monetary policy of individual countries. His view is that the Eurodollar market is very controlled, or that, at least in Europe, it is very controlled. The least controlled industrial country in terms of international financial activity is the United States, but, it was pointed out, that was a new development which had been the case only since January of 1974.

Mr. Hermberg was requested to provide data on the size of the German budget deficit. The federal budget deficit is about 3 to 4% of GNP and the total public deficit of 60 billion Deutschemarks is about 6% of GNP. These are not comparable to U.S. figures because the deficit is measured in relation to GNP as opposed to total public spending.

Currently the government is trying to increase the money supply and stimulate the economy; however, it is not expected that unemployment will go down for another year.

SWITZERLAND

August 12, 1975, Bern, Switzerland

Briefing by Mr. Edson W. Kempe, Treasury Attache, U.S. Consulate, Bern.

Banking regulation in Switzerland is generally informal, reflecting a homogenous society in which economic policy traditionally has been made by consensus. However, economic policy by consensus has ceased to be possible and new measures have been introduced.

Banks in Switzerland are conservatively managed and seldom get into trouble: The Banking Commission is responsible for the safety of deposits and thus for assuring that liquidity requirements are met. These requirements are higher than in other countries. There are also requirements that foreign exchange positions be balanced but there is some question as to enforcement in view of the fact that there are no direct examinations by authorities. The actual examination of Swiss banks is done by private auditing firms which are approved by the banking commissioners. The extent to which banks adhere to regulations reflects the efficacy of gentlemen's agreements.

The Swiss National Bank is responsible for the circulation of currency, for the payments mechanism and credit and monetary policy. While it is the bank of issue until 1971 its powers were limited to the purchase of foreign exchange. There was such a small national debt in Switzerland that the National Bank could not engage in open market operations. The total public debt is approximately 6% of Swiss Gross National Product as compared with a public debt in the United States which is 25% of GNP. The national or federal debt is only \$2 billion with a deficit currently of \$200 million. Thus, monetary policy was set by gentlemen's agreement prior to 1971. Since then, new regulations to deal with inflation have been inaugurated and the Swiss National Bank has been allowed to intervene in foreign exchange markets, to set minimum reserve requirements, credit ceilings, etc. Swiss National Bank officials are appointed by the National Council, a part of the executive branch of the government.

Interest rates in Switzerland are cartelized and very low rates are paid on demand deposits. The only real competition in banking is in services. There are other evidences of cartelization as well. The Swiss Bankers Association is a permanent underwriting syndicate which handles all issues in Switzerland. Membership in this Association was prohibited to foreigners until recently when foreign banks had formed their own association. Now, however, membership has been opened to foreign banks. In response to a question concerning the freedom of action of U.S. securities firms, Mr. Kempe replied that they are excluded from the domestic market. Most of their business is referred to the New York office, and therefore most of their business involves U.S. rather than Swiss securities. In practice, their offices in Switzerland are used to solicit Swiss customers for business done in New York.

Currently 15 U.S. banks have operations in Switzerland. The principle business of U.S. banks is related to the Eurocurrency market since

nonresident deposits in Eurocurrency earn interest while nonresident deposits in Swiss francs do not. Recently Firestone and BancInvest which were owned by private U.S. corporations were liquidated. They were very small operations and the reason that they closed was that they were prohibited from doing merchant banking.

August 12, 1975, the Swiss Banking Commission, Bern

Participating were officials of the Swiss Banking Commission, the Federal Political Department, the Federal Financing Customs Department and the Swiss National Bank. The chief members present were Dr. Albert Matter, President of the Swiss Banking Commission, and Mr. A. Hay, General Director of the Swiss National Bank. Dr. Matter chaired the meeting. Others present were Dr. Bodenmann, A. Rosselet, Dr. D. Capual, Dr. D. Bodmer, J. B. Schuster, Dr. de Rivaz, and Dr. Gutzwiller. Members of the Congressional delegation present were Chairman St Germain, Congressman Long, Congressman Hanley, Congressman Wylie and staff members.

Chairman St Germain and Dr. Matter engaged in a discussion of the meaning of reciprocity. Dr. Matter pointed out that the definition of reciprocity is specifically spelled out in Swiss banking law. He also pointed out that the Swiss consider the law of the state in which the parent bank is domiciled in approving U.S. bank applications and that reciprocity is judged on a state as opposed to federal level since federal law does not apply to foreign banks in the United States. Applications have been refused on the grounds of lack of reciprocity under state law. Swiss authorities also consider the size of the parent bank in granting applications. A minimum capital reserve of 2 million Swiss francs is required for foreign banks but the actual capital requirement depends on the size of the branch. Requirements are the same for both domestic and foreign banks.

The Swiss authorities said that U.S. banks can underwrite in Switzerland but that they aren't extensively involved in the domestic market. Dr. Matter stated that they can buy and sell securities for customers; that not only are they permitted to deal in securities but that they actually engage in this activity. Authorities stated that there have been refusals of applications because of state law.

The Swiss authorities asked questions regarding the Delaware holding companies. They inquired as to whether under their reciprocity law they should look to state law governing the operations of the bank itself or to the law which covers the holding company for the bank. They wanted to know what the implications are, and a reply was given to the effect that holding companies are under federal law and should be judged in that context.

In a discussion of bank supervision and examination it was explained that auditor's reports are sent to the directors and cannot be sent to a foreign country. It becomes a violation of privacy or secrecy if something occurs as a consequence of the report being sent out of the country. The admission of foreign examiners to examine foreign branches and subsidiaries was said to be in conflict with the Swiss concept of sovereignty.

Branches of Swiss banks in New York are examined just as are those in Switzerland; that is, by private auditors who then report to the directors of the bank. Auditors report to the Swiss Banking Com-

mission only if there are problems. The only formal concern of the Commission is whether or not the private auditors have all the information that they need for a satisfactory audit and whether or not they are approved auditors. A member of the Congressional delegation asked whether the requirement in the proposed Federal Reserve bill to regulate foreign banks in the United States regarding quarterly reports and end-of-year profit and loss statements would be in conflict with Swiss law. In reply, Swiss authorities stated that since Swiss banks are required to provide that information also, it would be acceptable.

Foreign banks are fully free to engage in the domestic money market, but Mr. Hay stated that for the most part their activity is two-thirds involved in the international market and one-third in the domestic market. They are mostly interested in the international market. Congressman Wylie asked if international operations have an effect on domestic banking. Mr. Hay replied that they do not.

The law requiring that foreign banks meet reciprocity requirements was enacted in 1969 as a result of the large increase in foreign banks in Switzerland. Foreign bank activity had reached a saturation point which has now abated. Swiss authorities felt the need to limit, "to stop" the further invasion of foreign banks into a country which was already "overbanked." The last U.S. branch approved by Swiss authorities was a branch of Manufacturers Hanover Trust Company in 1971. There had been reciprocity requirements for branches since 1934, but most new foreign applications were for subsidiaries and the 1969 federal decree extended coverage to subsidiaries. This decree was made law in the revisions which occurred in 1971. Thus the reciprocity law was introduced in 1969, became effective in 1971 and served to extend a 1934 law governing reciprocity for foreign branch applications to applications involving subsidiaries.

Swiss authorities stated that they would have to reconsider new applications of U.S. banks in the light of proposals to regulate foreign banks in the United States. They would probably not change the status of existing branches although they would not wish to commit themselves to that view. They hesitated to comment on how the proposed Federal Reserve bill governing foreign banks would apply to Swiss banks, or affect their attitude toward U.S. banks, but indicated that their major concern related to the grandfathering of interstate operations and securities affiliates.

Mr. Hay commented that Swiss authorities find the proposed imposition of reserve requirements for foreign banks by the Federal Reserve Board acceptable. The Swiss National Bank also imposes monetary policy constraints on foreign banks which operate in Switzerland, and they accept the imposition of monetary policy constraints on their own banks operating in other countries. It would make no difference to the Swiss whether their banks in the United States were regulated by federal or state authorities.

The discussion then turned to the functions of the Banking Commission. Officials of the Commission stated that it will not intervene to assist a troubled bank in the way that the Federal Reserve did in the case of Franklin National Bank. In Switzerland what happens to a troubled bank is a legal procedure handled through the courts.

The courts appoint a corporation which will try to save the bank or, failing that, to liquidate it.

Congressman Wylie asked if there is any form of deposit insurance in Switzerland and the answer was "Unfortunately, no." Some savings deposits are considered privileged deposits and are given preference up to a given amount in the case of bank liquidations.

Mr. Hay commented that relations between U.S. and Swiss banks are very good. Relations were not as good between 1969 and 1971 when U.S. banks were establishing a number of new offices in Switzerland. At that time there were complaints by Swiss banks that U.S. banks were stealing staff because of the great demand for manpower and for trained personnel.

Due to the recession, the government has tried to stabilize the number of non-nationals in Switzerland. But there has been no recession in banking. Banks are quite active, are making good profits, and there has been a spirit of moderation in banking since 1974.

Mr. Hay would not agree that the Swiss domestic monetary policy is insulated from the Eurocurrency markets. Swiss authorities have limited inflows of currencies and this policy has been more or less successful. But it does not insulate monetary policy since control can change very quickly. Dealing with the impact of currency flows is a very difficult job, especially because there is a free market system in Switzerland. There are no exchange controls and, therefore, it is difficult to introduce the kinds of controls which the French and Germans have introduced.

Interest rates in Switzerland do react to the integration of financial markets. If U.S. interest rates are high, Swiss rates will go up. If rates go down, funds flow back into the Swiss market. Swiss authorities view this situation as less than desirable. They think it necessary to maintain some degree of control. They have attempted to achieve lower rates than those prevailing outside Switzerland, but this has not been easy. Mr. Hay emphasized again that currently the interest rate is the main focus of domestic monetary policy and the main area in which they feel international financial markets have impacted on their domestic market.

Mr. Hay noted that the proposal for reserve requirements on Eurocurrency deposits has been discussed often in Basle at meetings by central bankers at the Bank for International Settlements. The Swiss have favored the proposal but there has been definite opposition from the United Kingdom. It is thought that the United Kingdom will never agree because of its profits on Eurocurrency funds. Therefore, the view of Swiss National Bank officials is that central banks must try other ways to control the Eurodollar market. Currently Mr. Hay sees efforts to control domestic inflation as the principal alternative. He argues that if major economies act to control their rate of inflation and the rate of expansion of their domestic currencies it will help contain the growth of the Eurodollar market.

In commenting on currency flows, Mr. Hay noted that under fixed rates there was a strong influx of foreign funds. Although the handling of foreign funds by Switzerland is a tradition of long standing, but the influx had grown too large for so small an economy. Mr. Hay commented on the difficulty in categorizing speculation. For the most

part, the so-called speculator is moving into a stronger currency merely to protect himself. The Swiss took measures to hamper inflows. But these inflows were particularly damaging under fixed rates because they had to create funds to convert these currencies and this was highly inflationary. The decision to float was made because it would relieve the central bank of the requirement to convert currencies by expanding the supply of domestic funds and thus it seemed that they would be able to control inflation. Floating brought a rise in exchange rates on Swiss francs and a decline in the dollar which they were prepared to live with until last October. At that point, the effects of the oil price increase and the demand for Swiss francs drove the Swiss franc up beyond what they considered to be a reasonable level in relation to other currencies. This created economic problems. The export sector which is so important for Switzerland—particularly watches, textiles, etc.—has been faced with great difficulties. The Swiss now view floating as presenting very difficult problems for domestic monetary and economic policy.

Currently interest rates are up in the United States, so there is an outflow of funds from Switzerland and an increase in the exchange rate of the dollar. This, of course, has pleased the Swiss greatly and has been very helpful. Although they were obliged to float, the floating system and the new volatility introduced by petrodollars has created recessionary tendencies which have been reinforced by world recessionary tendencies. There is some unemployment in Switzerland but their major problem is the recession in the export industries.

Mr. Hay noted, however, that the international situation is still too complicated and there are still too many problems to reimpose fixed rates at this point. But he does think that fixed rates between certain currencies may help. The Swiss may join the snake and float with it against the dollar. At the moment, however, the current rate of the Swiss franc vis-a-vis the Deutschmark is very high and the Swiss don't want to stabilize at this rate since Germany is a major trading partner and a major competitor for export markets.

Mr. St Germain noted that Mr. Hays had said that it was Federal Reserve policy to increase interest rates in the United States and that the Swiss were glad to see this. Mr. St Germain made the point that the Federal Reserve Board has been telling the Congress that its policy is to reduce long-term rates. Mr. Hay replied that he anticipates that short-term rates will go up and that long-term rates will rise in tandem.

Mr. Hay was asked to comment on whether or not Swiss authorities would object if Swiss banks in the United States were required to abide by Regulation Q ceilings on interest rates. In his reply, Mr. Hay drew a distinction between monetary policy and regulation. Actions which are taken by the central bank in the name of monetary policy are considered acceptable. The Swiss National Bank can suggest rates and the rates on medium-term paper are influenced by the Swiss National Bank. Swiss authorities recognize that interest rates play a role in the price of goods and so there is a special control commission which exercises oversight over interest rates and especially mortgage rates. This commission is not an arm of the Swiss National Bank but a separate agency. Interest rate policy is viewed as a political question.

Commenting on variable rate mortgages, Mr. Hay characterized it as a "funny system".

Mr. Hay declined to comment on the issue of whether or not there are banking cartels in Switzerland. He acknowledged that banks compete primarily on the basis of services and said that they pay no interest on demand deposits.

As the meeting broke up, one of the officials of the Swiss National Bank noted that a committee had been established at the Bank for International Settlements the previous year and that it meets four or five times a year to exchange information on the different supervisory and regulatory changes inaugurated in various countries. Meetings of the Committee are both informal and confidential and membership consists of representatives of the central banks which comprise the Group of Ten. The Committee chairman is George Blunden with whom the Congressional delegation met at the Bank of England.

ITALY

August 14, 1975—Rome
Bank of Italy

Participants: Dott. Tiberio Corradi, Chief, General Affairs, Vigilanza; Dott. Claudio Conigliani, General Affairs, Vigilanza; Avv. Gianfranco De Vergottini, Legal Service, General Affairs, Vigilanza; Dott. Francesco Rinaldi, Ordinary Credit, Vigilanza.

Mrs. Jan D'Arista, Staff, House Banking and Currency Committee;
Mr. Donald C. Templeman, Treasury Attaché, U.S. Embassy, Rome.

USCS. What do you consider to be the function of the activities of your banks located outside of Italy?

B.I. OFFICIAL. Very generally speaking, I think that branches of Italian banks located outside of Italy are not so much a cause, but some how or other, a consequence of an increasing integration of financial markets, which happened during the last decade. If Italy is not to be kept outside the European community and the world financial community, the strongest and soundest banks of the Italian system should go. If they were not already there, I think they should go there to assist Italian firms trading with the United States or Western Europe. And assist American firms trading with Italy and so on. If Italian banks were not in the most important financial markets, I think the whole business would be carried on by some other banks, of some other nationalities, but the job would be done, because it must be done by someone. At this point I can see no reason why Italian banks should not cooperate with the other major banks in Europe and the United States to help do their job.

USCS. Do you exercise any degree of control over the external activities of your banks? Do you have any voice in their operations, or is this simply a matter for their own management?

TRANSLATOR. There are three principal areas of control. First of all, the Bank of Italy must authorize the establishment abroad of a branch

NOTE.—This meeting was recorded on tape and the following is an edited transcript of the proceedings. In the transcript, the officers of the Bank of Italy will be referred to as "B.I. OFFICIAL"; Jane D'Arista as United States Congressional Staff—"USCS" and Mr. Templeman as "TRANSLATOR".

of the Italian bank. The second is that there is a "gentleman's agreement" between the Bank of Italy and the United States advisory authorities which permits the U.S. authorities to examine U.S. branches in Italy. The Bank of Italy so far has not exercised that right in the United States. The third area is simply that the balance sheets of the parent bank in Italy of course reflect the position—financial position—of the branches overseas.

B.I. OFFICIAL. Usually there is some record expressly for the foreign branches as well.

USCS. In the area of foreign exchange, is there a requirement that the overseas branches have balance positions. Are there reporting requirements? How frequently, weekly, monthly?

B.I. OFFICIAL. For Italian branches abroad there are provisions for Italian banks altogether—

USCS. Through the entire operation of the parent and its branches—

B.I. OFFICIAL. The overall position—

USCS. Do you have any limitations that are imposed on the parent bank in Italy with regard to its foreign exchange positions? Must it keep a balanced position, as do the English, in lira on a daily basis?

B.I. OFFICIAL. Well, I don't know on a daily basis. The oversight of foreign exchange does not depend on us—on the Banca d'Italia—but rather on the Ufficio Italiano di Cambio, the Exchange Control Office, which is a separate institution, and this is why we are not up to date on the subject.

TRANSLATOR. But there is a requirement for a balanced position. The question is, is it daily or not?

B.I. OFFICIAL. Yes, yes.

USCS. You have had no experience with foreign exchange losses among your banks?

TRANSLATOR. Yes, they have had experience with the Sindona group of banks.

USCS. Yes, but of the larger banks, especially those—the public banks or the banks of national interest—there have been no problems? The degree of control that is exercised by the Cambio is sufficient?

TRANSLATOR. The Exchange Control Office has direct responsibility for the exercise of control.

B.I. OFFICIAL. The Banca d'Italia does an inspection of the banks, and we didn't find any loss in this inspection.

USCS. Would this also extend then to the foreign banks that are operating in Italy?

B.I. OFFICIAL. Yes.

USCS. Both to the exchange controls and to the inspection which would reveal any discrepancies?

BI. OFFICIAL. Yes.

TRANSLATOR. In fact, there has been a pattern with inspections of U.S. branches—there has been a joint inspection by the Comptroller of the Currency for the National banks and the Bank of Italy. This has happened several times. When American inspectors come, the Bank of Italy sees this as an occasion for collaborating with the American inspectors and on some occasions has in fact inspected the bank simultaneously, with a certain degree of specialization—in inspection.

USCS. What are the foreign exchange controls currently in effect? Or are there any that might be comparable, say, to the German or the French or the English, with regard to exchanges, the outflows of lira, the inflow of other currencies?

TRANSLATOR. The controls vary depending in part on the business cycle and the status of the balance of payments. For example, in the last year there was a balance of payments problem and so the controls on the foreign exchange available for tourists—the amount was reduced. And of course, the controls in Italy are rather different from those in other countries. The controls vary according to the type of transaction involved. In some areas there is considerable freedom for purchases or sales of exchange; in other areas, complete prohibition. There are other areas where you need prior approval from the exchange office or the foreign trade ministry. There are some areas where that authority has been granted to the banks with a general license, and so on. It's rather complex.

USCS. It is my understanding that the domestic money market—the short term money market—is very thin, and this induces the foreign banks in Italy to be principally involved in the Eurocurrency market, and not in the domestic market. Is that a correct statement?

TRANSLATOR. This is not quite true. It is true that the sources of deposit funds locally are small for the American banks in Italy—about two percent. However, there is a money market in the form of the interbank market in Italy and about 30% of the American banks' deposits are in interbank deposits from other banks in Italy. The remaining 60% then, does in fact depend upon international transactions through the Eurocurrency market.

USCS. Do you require that the foreign banks maintain reserve requirement on their Eurocurrency deposits? Do you require that they maintain reserve requirements on their interbank deposits?

B. I. OFFICIAL. No, there are no reserve requirements on interbank deposits and since the amount of real deposits is very small, what they really have to pay is less in proportion to reserves for domestic banks.

USCS. Is this also true in the Eurocurrency deposits? That is to say, do you ask for reports as to which Eurocurrency deposits are interbank and which are from nonbank depositors and do you impose reserve requirements on the nonbank depositors in Eurocurrencies?

TRANSLATOR. Interbank deposits do not require—there is no reserve requirement. Foreign dollar deposits—there is no reserve requirement. There is a reserve requirement for all lira deposits that are not interbank deposits, whether they are foreign owned accounts or domestically owned accounts. Foreign owned lira accounts are also exempt from the reserve requirement. There are reserve requirements on savings deposits as well, but we were talking about current checking account deposits. Nonresidents' deposits are exempt and interbank deposits are exempt.

USCS. Please comment on the impact of the Eurodollar market on the Italian economy to the extent that it may have an impact on interest rates? In view of the activities of Italian banks in the Eurodollar market and U.S. banks in Italy, which are also Eurobanks, does this have an impact on the structure of the domestic money markets, does it in particular impact on the interest rates? Do you feel that this

makes it more difficult for the central bank to control monetary policy and in particular to influence the interest rate in the domestic market?

B. I. OFFICIAL. Yes, I would say so. I think there is quite a strong influence on domestic interest rates. I mean interest rates prevailing in Eurocurrency markets influence the structure of the Italian interest rates. There is one very big instance of this, and it happened in the last few years of the 60's, when bankers pursued the policy of stabilization of interest rates, which policy went on, I think, from 1966 to 1969. And then this policy had to be abandoned just because interest rates abroad and on the Eurocurrency markets—had gone up—so that in the end the Central Bank in Italy was compelled to abandon its stabilization policy and let interest rates in Italy rise.

USCS. Because of the outflows—

B.I. OFFICIAL. Yes, that's right.

USCS. Is this a continuing problem?

B.I. OFFICIAL. Yes.

USCS. Even with the floating rates?

B.I. OFFICIAL. Yes, I think so.

USCS. You are still faced with substantial outflows?

B.I. OFFICIAL. Well. I don't know whether at the moment it is substantial, but it certainly is a problem, it is a constant problem for monetary policy.

TRANSLATOR. There is a correction on the question of reserve requirements. Evidentially there *is* a reserve requirement on lira denominated nonresident accounts.

USCS. Of banks in Italy?

TRANSLATOR. Yes. But not nonresident foreign exchange accounts.

USCS. In the course of speaking with the central banks throughout Europe, we find a definite distinction is made between "regulation" and "monetary policy". Much is done in the name of monetary policy which we would consider very restrictive in the United States, but which the central banks of Europe accept as necessary. Nevertheless, they look at the American regulatory structure as very restrictive, and particularly those proposals that have been put forward in the Rees bill to regulate foreign banks in the United States. I'd like your comments on several aspects of this legislation—the foreign bank bills proposed by the Federal Reserve Board and by Congressman Rees. To begin with, the imposition of reserve requirements on foreign banks in the United States—what would be your views of this?

B.I. OFFICIAL. The objection that can be made to those provisions is mostly related to the compulsory membership in the Federal Reserve system. On this point, the view is that it would be even a higher cost in the reserve requirements. Possibly in the present situation where the foreign banks are mostly subjected—only—to state legislation—what they have to pay is less than what they would have to pay if they become members of the Federal Reserve.

USCS. Yes, but the other banks which are not members of the Federal Reserve are not banks of comparable size to the foreign banks which are operating in the United States. The foreign banks are very large banks. The lesser reserve requirement under state law—in New York it's one percent less—is for the benefit of the very small institutions and the view has been expressed by some that foreign banks

should not have this benefit because they are competing world-wide with the largest U.S. banks; the multinational banks—both U.S. and foreign—are all of relatively equal size.

B.I. OFFICIAL. When you say they are not of comparable size, you are comparing the *entire* bank—not of the branch operating in the United States?

USCS. Although there are some branch operations of foreign banks in the United States which reach the half billion dollar category.

B.I. OFFICIAL. Only the branch—the branch itself?

USCS. Yes.

B.I. OFFICIAL. The objection is to limiting the possibility of choosing between the two solutions. I think possibly many branches of European banks would choose anyhow to become members because even the cost aside, there are other considerations. But they should be able to choose between the two possibilities.

USCS. The Federal Reserve sees it as necessary for monetary policy purposes to require reserves—that they be noninterest bearing reserves held with the Federal Reserve.

B.I. OFFICIAL. Yes, but then a solution should be—a general solution—including all the banks, because from what I know at the present time, the reserve requirements are different, are inferior for state banks, for about 60% of the American banks.

USCS. No—60% in *number*. They have only 20% of all assets/liabilities, the nonmember banks.

B.I. OFFICIAL. But anyhow, in proportion even if the 20% includes the foreign banks, I think still the biggest proportion is made up of domestic banks.

USCS. Most of the nonmember banks are very small banks. They seldom operate directly in the money markets; they are mostly in the outlying regions.

B.I. OFFICIAL. Yes, but still they collect deposits.

USCS. Yes, they do.

B. I. OFFICIAL. And they collect, did you say some 30%—20% of deposits, I see. But I would like to ask you, does the fact that a bank—a nonmember bank reaches a certain dimension, a certain size as measured by deposits or assets or whatever you like—does that necessarily imply that that bank should become a member of the Federal Reserve?

USCS. There is no such requirement in law. To the extent that there is some pressure on the larger banks to join the system, it is the result of moral suasion. But the Federal Reserve has proposed legislation to require all banks to hold reserve requirements. It has been proposed several times in the last several years.

How would you view the imposition of reserve requirements on foreign banks by the Federal Reserve in the present situation, and the imposition by German authorities of the requirements that no interest be paid on Eurocurrency deposits—on non-Deutschemark deposits? What distinction would you draw?

TRANSLATOR. There is a distinction between the U.S. and the German cases, in that the German Bundesbank, when it applied the rule that interest could not be paid on these deposits, applied it universally. They did not distinguish or discriminate between German banks and

foreign branches, whereas the proposal for Federal Reserve membership does distinguish between a foreign branch and an American bank.

USCS. It does not discriminate between the largest banks—those with the majority of deposits—and foreign banks. It would simply make the foreign banks equal to those banks who have 80% of all deposits. For reasons of policy, smaller banks are given an incentive to compete by lowering the cost of reserve requirements to make up for higher costs elsewhere. It is thought that this helps to preserve a number of small banks in the United States. Meanwhile, there were substantial inflows and outflows of funds last summer through the foreign banks and it was thought that the imposition of reserve requirements would help to stabilize the domestic money market, and improve the Federal Reserve's ability to implement monetary policy.

B.I. OFFICIAL. Yes. Talking about monetary policy, I would like to make a sort of theoretical objection. You said it is a crucial point that the central bank should be able to control monetary policy in each single country and that is okay by me—I mean I have no objection at all. The point is that, as you said before, member banks—members of the Federal Reserve system—collect some 80% of deposits domestically. Then there is some 20% collected by nonmember banks. Then there is, I guess, one tiny fraction of deposits collected by foreign branches. Is that right? I don't know what the figure is.

USCS. It's very small if you exclude nonresident deposits and interbank deposits.

B.I. OFFICIAL. And that's for the banking system. And then you've got—you're lucky—you've got very highly sophisticated and developed financial markets, and financial intermediaries which are not subject to reserve requirements, as far as I know. And, as far as I know, that makes it a bit more difficult and more loose—the control of the Federal Reserve authorities over the monetary policy of the country. I can't see then, in what degree imposing reserve requirements on deposits collected by foreign branches would solve this problem—which is crucial, I agree—in the presence of a quite substantial share of deposits which are not subject to reserve requirements, and in the presence of financial institutions, very developed, which again—

USCS. Yes. But the reserve requirements for foreign banks would extend to funds coming from overseas as well. This would be a distinction between the way it is done here and would be more similar, to say, the German system in that regard. So that it would more effectively control inflows. Now, whether or not it would control *outflows*, is another question.

B.I. OFFICIAL. I was saying before there would be a kind of discrimination against foreign banks operating in the States. I meant it in the respect that it would be a compulsory membership and that it would be the requirement that Federal Reserve membership would be imposed only for foreign banks. If, as I read, there is some proposal from the Federal Reserve—to impose a general reserve requirement on all banks and even on the institutions my friend was talking about now—then there would be no objection from European banks.

USCS. Yes, there is such a proposal. It would impose reserve requirements on the savings institutions as well as on all banks. But, as your colleague points out, the reserve requirements on the amount of resi-

dent deposits which would be subject to reserve requirements—domestic resident deposits—is small. Meanwhile, the imposition of the reserve requirement on the inflow—the external sources of funds—would simply put the foreign banks in the same category as those U.S. banks with overseas operations.

B.I. OFFICIAL. I see. The point is that deposits would be subject to reserve requirements, whether they are in dollar deposits or in other currencies.

USCS. Yes, that is correct. The distinction between dollar and foreign currency deposits is not spelled out in the bill, it is simply that the Federal Reserve would have the authority. Now, what it would do beyond that point in terms of specific regulation is difficult to say. We do not have the experience of inflows of foreign currencies into the United States at this point in time. Therefore, there are no regulations to cover that. There may be in the future, in which case the Federal Reserve presumably would have the power to formulate new regulations that would cover foreign currency deposits. At the moment, the concern is the dollar deposits, and the regulations that apply to U.S. banks cover inflows of funds from overseas—dollar flows from overseas. They are subject to reserve requirements. Those of foreign banks operating in the United States currently are not subject to mandatory reserve requirements.

B.I. OFFICIAL. The point is—I missed completely this point—relating to the draft by Mr. Rees. I didn't understand that this was the main aim of the entire project.

USCS. Yes, that is the intention of the legislation. But to take the point one step further, those small banks which are not subject to Federal Reserve requirements are not lending to the same customers. They are not lending to the large corporations, as are the foreign banks. All of the domestic lending of foreign banks in the United States, except for those few foreign banks which are engaged in retail operations in California and do not include Italian banks in particular, are what we call "wholesale" banking, and therefore the consumer banking which is done by the small banks is—they are not competitors.

B.I. OFFICIAL. The two phenomenon are different, but the result from the point of view of the amount of reserve in proportion that the Italian banks must pay in the States and the American banks in Italy pay must be more or less the same.

USCS. It will become the same with respect to the reserve requirement against nonresident deposits. The bill proposes to extend the reserve requirement against nonresident dollar deposits which currently applies to U.S. banks but does not apply to foreign banks. We are extending it to foreign banks. And this is the mechanism through which it would be done—by imposing the Federal Reserve membership.

B.I. OFFICIAL. One of the main objections was to the provision under which foreign banks couldn't collect deposits in the United States.

USCS. That is in the Rees proposal.

B.I. OFFICIAL. Yes. And the objection is that we consider that collecting deposits is an essential part of the banking appeal. So that if you prevent the bank from collecting deposits, you don't have any more powers than some other financial institutions.

USCS. Yes, this is true. It would appear to be the general case not only in the United States but throughout Europe, that the Eurobanks are not collecting domestic deposits in any large amount. They are active in domestic interbank markets, both in the United States and in other countries and in the Eurocurrency interbank markets as well. These seem to be their primary sources of funds. The specific reason behind this provision was to recognize that this is the case—that they are not collecting in substantial amounts in the United States at this moment, resident deposits, because they are not in retail banking.

B.I. OFFICIAL. Yes, this is a matter of fact, at the moment. But it is one thing to recognize that the bankers for some reason are not interested in this kind of activity, and another thing to prohibit them from doing it.

USCS. The reasoning behind the Rees proposal is that, currently, the foreign banks are active in more than one state. This is contrary to U.S. law, and if they were not permitted to take resident deposits, except in one state—

B.I. OFFICIAL. Through a subsidiary.

USCS. Through a subsidiary—then, they would be operating as U.S. banks do. The other activities would be permissible—the activities of branches which permitted them to be active in the interbank market and to collect foreign deposits.

B.I. OFFICIAL. They could do that in other states too?

USCS. Yes.

B.I. OFFICIAL. This wasn't clear before.

You mean through Edge Corporations or—

USCS. No, through branches. They could have branches in more than one state—in five states if they wish. The branches would not be able to take domestic deposits, but would be able to take foreign deposits. But there is another reason for this. It is not only because of the interstate banking problem but also because of the federal deposit insurance problem. The Federal Deposit Insurance Corporation so far has not been willing to insure the deposits of banks that are not domiciled in the United States because of its supervisory and examinatory responsibilities. A prohibition against branches accepting domestic deposits would clarify the issue. At this point the Federal Reserve bill does not clarify that issue.

B.I. OFFICIAL. But they wouldn't be able to collect deposits, not even in their own state, not at all?

USCS. Not unless they were a subsidiary operation.

B.I. OFFICIAL. Only one state for a subsidiary.

USCS. Yes. Or, unless they only have one operation in the United States, and that is a state chartered branch which is permitted to take domestic deposits, such as in New York. If a foreign bank wanted to operate only in New York under New York State law, then it could take domestic deposits, under New York State law.

B.I. OFFICIAL. What I understood from the Rees bill, from what I read, a state branch would have to be changed into a federal branch.

USCS. If they operate in more than one state.

B.I. OFFICIAL. Oh—if they are in only one state they can remain as a state bank?

USCS. That is correct.

TRANSLATOR. Dr. Corradi says that the four gentlemen present are in fact Vigilanza, the banking supervisory authority of the Bank of Italy. There is no one here from the Research Office who is concerned with monetary policy, or from the Italian Exchange Office which is a semi-independent part of the bank, so that if you have some specific questions in monetary policy or exchange control areas which you would like to pose and leave behind, they would be happy to try to provide the answers for them and send them to you through me, after you've left.

USCS. Thank you for your offer. What we may do is to send back from the states some questions, and I would appreciate that. Now, do you have any other aspects of either the Federal Reserve or the Rees bill—you haven't commented—

B.I. OFFICIAL. Yes. The ones are mostly on the Rees bill, because I think the Federal Reserve bill at this point is more permissive concerning the nonbanking activities of foreign branches. The Federal Reserve bill provides for permanent grandfathering clause for this kind of activity, while the Rees bill provides only for a temporary period, ten years. Now, the effect of giving ten years time to divest the nonbanking activities I think is not of any practical use, because I don't think that this kind of thing can continue, if everybody knows that in ten years they are going to send their activities in the states. So, the objection to that would be to consider recommending a permanent grandfathering clause. Another point would be to make clear in the Rees bill that all the provisions of the United States legislation relates only to activity done in the States, the nonbanking activity, and doesn't imply a control on the nonbank activities of the banks outside of the States.

USCS. Yes, well that is the intention.

B.I. OFFICIAL. I don't think it's very clear at the moment.

USCS. I will be glad to pass on your comments. There is some confusion because the bill that was introduced in the state legislature in California did extend to nonbanking activity outside the United States. But the Rees proposal does not. This provision is patterned after existing law and existing regulation. The current law states that this is the case; that where a bank comes under the Bank Holding Company Act and therefore under Federal Reserve regulation, the prohibitions extend only to the nonbanking activity in the United States.

B.I. OFFICIAL. What you were saying before about the activity of the House Committee that is studying the general reform of financial institutions in the States—there is a general objection to be made to the possibility that legislation on foreign banks will be enacted before that study is completed.

USCS. At this point the intention is to introduce the legislation as a package.

B.I. OFFICIAL. Altogether?

USCS. Yes.

B.I. OFFICIAL. For American banks operating in Italy there is no limitation upon investments, or rather, there are the same limitations that there are for Italian banks. We have a procedure by which any kind of participation of a bank in an industrial or financial corporation requires that the Bank of Italy be notified.

USCS. Yes, but there is a limitation on the amount of investment—the percentage of total shares the bank can hold?

B.I. OFFICIAL. Yes, but this is the same for foreign as for Italian banks.

USCS. The intention here is to bring the foreign bank under the same restraint as the American banks are currently operating; not to impose a greater restraint on foreign banks.

B.I. OFFICIAL. Because now American banks cannot do any kind of securities business.

USCS. That is correct. And there is still a lot of opposition to permitting American banks to get into that business. There is some pressure from the banks themselves to relax the restraints, using the foreign banks as an arguing point.

B.I. OFFICIAL. I have heard that there are proposals for changing the Glass-Steagall Act.

USCS. Yes. There is some discussion of that by the banks, but, as I said, there is also a lot of opposition.

B.I. OFFICIAL. Another thing I would like to comment about the proposal is the fact that the requirement that the directors of the bank—of the foreign bank—should be American citizens—the one-third should be American citizens, if I remember correctly.

USCS. This would apply only to the subsidiaries.

B.I. OFFICIAL. Yes. This is from our point of view—at least—we are not used to the idea, because for us there is no limitation, and so we would suggest that it should be the same.

USCS. Yes. But of course, it is very different in Switzerland and France where the restrictions are much greater. We would appear from that point of view to be exceedingly generous.

B.I. OFFICIAL. Compared to——

USCS. Compared to other countries—not Italy, but other countries. And of course, in all of these matters, the difficulty is, each country is entitled to——

B.I. OFFICIAL. To put some limitation—. But I think, instead of asking the directors to be citizens of the States, it would be enough to ask them to be residents there. It would be a solution.

USCS. I assume that when your banks went into France—and they do have operations in Paris—that you simply accepted the requirement regarding residents. Would it be fair to say that the objections arise because we are contemplating a change in the law?

B.I. OFFICIAL. This is why one can make a proposal. I think that is basically all the objections. Something that is not clear is the fact that in the Rees bill there is a provision for which a foreign bank accepts 108% of the liability of the branch there. What is the meaning of that?

USCS. The German authorities were confused on that issue too, because that is the New York State law. It is just putting into federal law the current New York State law with regard to branches. In effect the extra 8% is the capital of the branch. That is not unlike capital requirements in other countries. I don't know if you have a capital requirement on foreign branches.

B.I. OFFICIAL. No, not by law. We find they ask the authorization—there is some dealing about that—but it is not law.

USCS. It is not statutory. It is in other countries, of course as you know, on branch requirements for capital, minimum capital. But that is what that is, and it is simply New York law.

B.I. OFFICIAL. Explain more clearly, please.

USCS. Well, it means that the branch holds 8% of assets in excess of liabilities. If you want to look at it another way, we usually consider capital to be a liability, and generally it is equity capital, therefore it is on the liability side and therefore you have a balanced position of assets and liabilities. But because of the peculiarity of a branch, that it doesn't have equity capital, this is not applicable. The law in New York currently and the law that is proposed in the Rees draft would require that the foreign branch have an additional 8% invested in some U.S. assets, interest bearing U.S. securities—Treasury bills, whatever, and that this would be considered as capital. These assets would be in excess of the liabilities and therefore if there were a question of difficulties in the branch this could be liquidated for depositors. And of course, it is in lieu of deposit insurance as well.

B.I. OFFICIAL. We were talking about branches. And we said branches cannot collect internal deposits. So, what would they have on the liability side?

USCS. Interbank deposits. Or borrowings from the parent, external deposits, foreign deposits. They may do whatever they like with 100% of those liabilities, an additional 8%—

B.I. OFFICIAL. Now I understand. I thought it was 100 plus 8 which in effect would mean—why it wasn't clear—that the total of what they collected should be invested in the States.

USCS. No. In practical matters the parent bank just supplies 8% of what the balance sheet is and it is permanently invested, in the United States in securities or some interest bearing time deposit and that represents capital.

B.I. OFFICIAL. Another thing, another objection—when the Rees bill provides for authorization for the acquisition of control of American banks, there is a difference between the treatment given to the foreign bank as far as I know, because an American bank has only to notify them, not get authorization from them.

USCS. American banks cannot acquire other banks without authorization.

B.I. OFFICIAL. Not just a notification of the—

USCS. Oh no.

B.I. OFFICIAL. Last objection. Composing the two bills, the Rees bill and the Federal Reserve bill, the main difference is the fact that the Federal Reserve provides for—gives—the United States agency the possibility of reaching agreement with foreign authorities on the exchange of information, on the exchange of inspection, other methods of regulating the activity of banks. And there is nothing of that in the Rees bill.

USCS. Actually that was included in the first foreign bank bills—the Patman and Rees bills—that were introduced in 1973, before the Federal Reserve bill. I think it was left out of the final version of the current Rees proposal simply by accident. The notion of reciprocity is very important—exchange of information, exchange of examination.

B.I. OFFICIAL. And between the central banks in some cases, as with

us, it would be necessary (to negotiate) a real international treaty because we would need a law to enable us to give information to other banks. (Under Italian law) even the Central Bank can't give information on banks so we would need really a formal international treaty for that.

USCS. You would need a treaty?

B.I. OFFICIAL. A treaty or a law—internal law—but if it is a treaty, it has to be ratified by law. Anyhow, the idea from your point of view is that it will be included in the bill, a provision by which the American agency can reach an agreement with the corresponding authority in other countries.

USCS. Yes. You've spoken about the Rees bill. Now what about the Federal Reserve bill? What are your views on that legislation?

B.I. OFFICIAL. I think most of the criticism is of the Rees proposal, although the membership is considered compulsory in the Federal Reserve bill as well. This last objection (about exchange of examinations) wouldn't be applicable to the Federal Reserve bill. Altogether I would say that the Federal Reserve Bill has less points (against which we would) give—raise objections.

USCS. And is it because of the grandfather clause that you are particularly willing to accept the Federal Reserve bill?

B.I. OFFICIAL. I think that is important. As I said, I think that giving a grandfather clause that is limited in time is almost equal to not giving any grandfather, because if any activity like a security affiliate knows that it has to stop this activity in ten years, I don't think they can really work.

You certainly may have realized that from our part, there was quite a lot of misunderstanding about the Rees bill. I mean some points—I don't know, either we missed them or we misunderstood them. It would be quite interesting to me if you could possibly tell us, from your point of view, what are the main differences between the two projects, and in what way the Rees bill is different from the Federal Reserve bill. What made Mr. Rees unhappy about the Federal Reserve bill? The Federal Reserve bill gives the possibility of a choice between a Federal and State charter—

USCS. Yes, but not membership. And so does the Rees proposal.

B.I. OFFICIAL. Yes. And another thing we think is quite important for us, another positive aspect of the Federal Reserve bill, is the fact that it provides for the Comptroller of the Currency to authorize a foreign branch even in states where it is not permitted by the state. So this is another reason that I think that the Federal Reserve bill favors our point of view.

USCS. With regard to the discount privilege at the Bank of Italy—

B.I. OFFICIAL. I think that foreign branches—American branches—haven't been taking advantage of that until now, but there is the possibility, if they want to do that.

USCS. And are they now taking advantage of that?

B.I. OFFICIAL. They are not, but they could.

TRANSLATOR. In fact, in Italy all banks have the same access to the Bank of Italy, whether they are Italian banks or branches or subsidiaries of foreign banks—subsidiaries are Italian banks—in all ways.

USCS. As in the United States currently.

TRANSLATOR. The Bank of Italy may refuse to discount but they may refuse to discount for any bank, whether it's foreign or domestic. In practice there have been a few cases of discounting or advances by American banks with the Bank of Italy and they have never been refused to date.

We are now talking about the, not the capital base because a branch doesn't have capital, but the equivalent of that for American branches in Italy and as they mentioned earlier, while there is nothing in the law that specifies a percentage, in practice when the branch is opened, the Bank of Italy agrees with that bank on a certain level of what they call a "donation", a kind of an endowment fund in lieu of capital.

USCS. Are the funds given by the parent bank to the branch?

TRANSLATOR. Right. And we have here a table showing six of the American banks and the level of this endowment fund is meant to have a certain rough relationship with the internal deposits—not foreign deposits and not interbank deposits, but the locally generated deposits. And for example, these figures for the six banks were—this is March of 1975—113%. The Italian law does not set any minimum capital requirement for any bank, either foreign or Italian. In practice for Italian banks it is something like three or four percent capital to own resources, that is, deposits, but I guess not interbank deposits. The equivalent figure for the six American banks at the end of March of this year was 113%, 309%, 7.5%, 1%, 86%. There is no figure for the last one. Now these percentages in some cases appear rather high because several of the banks have virtually no domestic deposits and therefore if they have any endowment fund at all, it is going to be quite a large percentage of that very small deposit base. The one bank among these which has the largest deposit base is the one which has the 1% ratio. However—

USCS. And these are only the branches? Not subsidiaries?

TRANSLATOR. Not subsidiaries, only the branches. However, this one branch with this low percentage—there is an agreement between the Bank of Italy and the parent bank that the losses, any losses of this branch, will be attributed to the parent bank's own balance sheet, and I believe they said that they are also talking about the possibility of some increase in the endowment fund.

B.I. OFFICIAL. The parent bank comes into consideration in terms of responsibility for the branch. But this is indicative of what you were saying before—that the central bank of the parent bank is ultimately responsible for the branch. But still, it is true what you were saying before, that Italian branches of American banks can still apply to Banca d'Italia for discounts.

TRANSLATOR. The distinction though really becomes one of, is this ordinary discounting, or is it a question of failure or potential failure of the bank? I have the feeling that if it were ordinary discounting that the Bank of Italy might very well accommodate the branch. However, if there were a real problem of bankruptcy, then the Bank of Italy might very well say, no more—it is now the responsibility of the parent of the bank.

Dr. Corradi would like to say that we should not assume, as I was suggesting, that the Bank of Italy would necessarily turn to the central bank of the parent body in the case of a local branch of an

American bank getting into financial difficulty. He said that the approach of the Bank of Italy with regard to foreign banks has always been, to the extent possible, to assimilate them with Italian banks and to treat them in a similar way, so that in the event that an American branch bank got into some kind of financial difficulty, went to the central bank and asked for discounting facility, the Bank of Italy would want to know what was the cause of its need for money. For example, if it were simply that the current business cycle situation in Italy or internationally was such that the bank through its legitimate operations was nonetheless in need of liquidity, then it was quite possible that the Bank of Italy in that case would provide discount. On the other hand, if it turned out that the bank had been making loans of an unsound sort, speculating or doing things of that sort, then the answer might be different. With regard to the discounting facility, they were making the point that the American banks, by virtue of the fact that they don't do all that much trade financing, do not have in their portfolios the paper that is usually used for discounting and therefore they are limited by that factor. A separate point was to show the flexibility of the Bank of Italy with regard to the foreign banks in Italy. In 1973 two different limitations were imposed on the Italian banking system. One was a limitation concerning the amount of their lending which could be at medium term, because normally commercial banks in Italy are short term institutions and not allowed to do this except within this narrow limit. The other had to do with a monetary policy tool which was to limit the global credit expansion of the banks. These were both calculated on the basis of the loans and investments—existing loans and investment base of the banks. Since the American banks, many of them, were new in Italy and did not have an accumulated base yet, the Bank of Italy established for them on an ad hoc basis a conventional base which was higher than that they would normally have been entitled to.

USCS. With respect to the global base, did this include the external operations of the Italian banks?

TRANSLATOR. I forgot one additional point. Their loans in dollars were exempted from this also.

B.I. OFFICIAL. All operations.

USCS. But not in Eurocurrencies, only all their lira, is that correct?

TRANSLATOR. The limit on credit expansion included loans in foreign currency as well as in lira.

USCS. And included the overall operations, even in London or New York of the Italian banks?

B.I. OFFICIAL. No. Now we are talking about the foreign branches—I mean, you say—

USCS. No, I'm talking about controls over your own banks. I'm interested in your credit control method and how far it goes and what it extends to.

TRANSLATOR. I was just saying that this control on global credit which most recently was a 15% control on credit expansion of each bank, has recently been eliminated mainly on the grounds that it was not necessary because there are adequate controls in other forms. There are reserve requirements which are recently changed, there is a forced portfolio investment requirement whereby the commercial banks are

required to invest, at the moment, 30% of their deposits in certain medium term bond issues, it's a kind of intermediation device. The central bank has historically controlled the foreign position of the banks, varying it from time to time, and so it was considered that a direct credit control on individual banks was not really necessary. Also, the business cycle situation has improved now and credit is not as tight as it was before.

B.I. OFFICIAL. About the credit squeeze—you asked, did it apply to the operation of Italian branches abroad?

USCS. Yes.

B.I. OFFICIAL. No it did not.

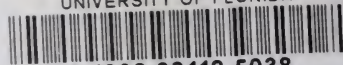
TRANSLATOR. The other exception which was made to these credit controls was that the American banks and the American banks only, were allowed to make foreign currency loans to Italian residents outside the credit control. The Italian banks were not allowed to do that. This may have had a balance of payments motivation too. There was a condition to this, that the foreign currency collected abroad to finance the foreign currency loan in Italy had to have the same maturity, there was a balancing of maturity required.

USCS. That was imposed on the Italian banks?

TRANSLATOR. No, the American banks—in order to qualify for the exception. Mr. Corradi is saying that apart from the interest in these specific, special facilities given to the American banks, that they are citing these cases simply to show that the overall position of the Bank of Italy is to treat foreign banks in Italy as an integrated part of the banking system. Notwithstanding this fact, there have been cases where if anything, the foreign banks are treated better than Italian banks, not because there is some basic preference for foreign banks, but because the foreign banks position and mode of operation is such that it requires that special treatment be given in order to be reasonable and fair.



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